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INDIAN OIL CORPORATION LIMITED

MINISTRY OF PETROLEUM AND NATURAL GAS

COMMITTEE ON PUBLIC UNDERTAKINGS 1994-95

TENTH LOK SABHA

LOK SABHA SECRETARIAT
NEW DELHI

FORTY-SECOND REPORT

COMMITTEE ON PUBLIC UNDERTAKINGS (1994-95)

(TENTH LOK SABHA)

INDIAN OIL CORPORATION LIMITED

(MINISTRY OF PETROLEUM & NATURAL GAS)

Presented to Lok Sabha on 28.4.1995
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LOK SABHA SECRETARIAT
NEW DELHI

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COMMITTEE ON PUBLIC UNDERTAKINGS
(1994-95)

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INTRODUCTION

I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to submit the Report on their behalf, present this Forty-Second Report (Tenth Lok Sabha) on Indian Oil Corporation Limited.

2. The Committee took oral evidence of the representatives of Indian Oil Corporation Limited on 23rd and 24th June and 11th and 12th July, 1994 and the Ministry of Petroleum and Natural Gas on 15th and 16th September and 15th and 26th October, 1994.

3. The Committee considered and adopted the Report at their sitting held on 24 April, 1995.

4. The Committee wish to express their thanks to the Ministry of Petroleum & Natural Gas and Indian Oil Corporation Limited for placing before them the material and information they wanted in connection with the examination of the Company. They also wish to thank in particular the representatives of the Ministry of Petroleum and Natural Gas and Indian Oil Corporation Limited who gave evidence and placed their considered views before the Committee.

5. The Committee would also like to place on record their appreciation for the valuable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

NEW DELHI;
27 April, 1995
7 Vaisakha, 1917 (Saka)

VILAS MUTTEMWAR,
Chairman,
Committee on Public Undertakings.

PART A
BACKGROUND ANALYSIS
I. ROLE AND OBJECTIVES

(a) General Background

1.1 On 22 August, 1958, Indian Refineries Limited, a wholly Government owned Undertaking, was registered under the Companies Act, 1956 for setting up and operating the refineries/pipelines. On 30 June, 1959, Indian Oil Company Limited, a wholly owned Government enterprise, was incorporated to undertake marketing functions. In March 1963, Indian Oil Blending Limited, a joint venture between Indian Oil Company Limited and Mobil Petroleum Company Inc. was registered on 50:50 basis to carry on the business of blending and manufacturing lubricating oils and greases. Indian Oil Blending Limited became a wholly owned subsidiary of Indian Oil Corporation Limited, as a result of purchase of 50% shares of Mobil Petroleum Company Inc. in 1974. With a view to have better coordination, on 1st September, 1964, the Indian Refineries Limited was dissolved and merged with the Indian Oil Company Ltd. to form Indian Oil Corporation Limited (IOC). On 12 January, 1970 majority interest in then Indo Burmah Petroleum Company (IBP) was acquired. Later in August, 1972 the majority interest in Indo Burmah Petroleum Company was transferred to the President of India in accordance with the Presidential directive and as such IBP ceased to be a subsidiary company of IOC. Indian Oil set up a full fledged Research and Development Centre at Faridabad (Haryana) in March, 1972. In October, 1981 the assets and liabilities of the erstwhile Assam Oil Company and the Burmah Oil Company (India Trading) were taken over by Government and vested in Indian Oil Corporation Limited. The Corporation has presently four divisions *i.e.* Refineries & Pipelines Division, Marketing Division, Assam Oil Division and Research and Development Centre.

1.2 The present activities of the Corporation cover among others, crude refining, transportation of crude oil/petroleum products, marketing of petroleum products, Research and Development in petroleum related fields, import/export of crude oil/petroleum products, etc.

(b) Objectives

1.3 The micro-objectives of IOC were approved by the Government in June, 1984. The main objectives of the Company are as under:—

(i) to serve the national interest in the oil and related sectors in accordance and consistent with Government policies,

(ii) to ensure and maintain continuous and smooth supplies of petroleum products by way of crude refining, transportation and marketing activities and to provide appropriate assistance to the consumer to conserve and use petroleum products most efficiently,

(iii) to earn a reasonable rate of return on investment,

(iv) to work towards the achievement of self-sufficiency in the field of oil refining, by setting up adequate domestic capacity and to build up expertise for pipe laying of crude/petroleum products,

(v) to create a strong research and development base in the field of oil refining and stimulate the development of new product formulations with a view to minimise/eliminate their imports, if any, and

(vi) to maximise utilisation of the existing facilities in order to improve efficiency and increase productivity.

1.4 During the course of examination of the representatives of IOC, the Committee enquired as to what extent the objectives of the company as defined by IOC have been achieved so far. The Chairman, IOC stated in evidence as follows:

"Our first objective was to serve the national interest in accordance with the Government policies. The main point I want to put here is that we have achieved full capacity utilisation. The second objective is to ensure smooth and continuous flow of supplies of petroleum products. I am happy to say that we have succeeded in doing this by having a very wide infrastructure all over the country in terms of terminals, storage points, retail outlets, agencies etc., and particularly in terms of calamities like cyclones, floods, we have successfully risen to the occasion. In the recent earthquake that occurred at Killari, we opened camp offices to take care of the people's needs. Sometimes we get into difficulties because of law and order problems and other reasons but we tackle them as and when they arise. The third point was to earn reasonable rate of return. The next objective is to achieve self-sufficiency in the field of oil refining and setting up adequate capacity, to build up expertise in crude and petroleum products. As far as self-sufficiency is concerned, we own upto 46 percent of the refining capacity within India.

Most of our refineries are very old or based on Russian design. The oldest refinery is almost hundred years. We are modernising it. At Baroda, we have modernised it and we are trying to do the same thing at Barauni. Apart from modernisation, we are now building a six million tonnes refinery at Panipat and hopefully we would succeed in putting another refinery in a joint sector in Eastern India. We have developed self-sufficiency in refining technology. As far as pipeline operations are concerned, we are the only one in India today with the exception of one company from Bombay. We feel that we have developed enough expertise to be able to manage the situation as and when they come."

(c) *Corporate Plan*

1.5 IOC brought out its first Corporate Plan consisting of two documents namely Corporate Perspective Plan IOC-1995 (PP-1995) and Corporate Long Range Plan 1985-90 (LRP 1985-90). These documents are being updated periodically the latest being Corporate Perspective Plan 2000. During 1992, Divisional Long Range Plan (LRP) for the period 1992-97 delineating specific action plans for achieving the overall long term goals have been developed.

1.6 On being asked about the achievements made as compared to the projections in the Corporate Plan, the Chairman, IOC stated in evidence:

> "We are trying to fulfil our plan according to our future projections of sales and all other things of that nature, and we monitor them also. Broadly speaking it is in the materialisation of sales that we find that we are going off slightly, that is because of the fact that the sales in the 8th Plan and the demand as in 2000 AD is not materialising as we expected. So, if the sales do not materialise, then, of course, the resource will be appropriately reduced. Basically, we are moving according to the plan, and are going ahead. The demand in future depends on the totality of many factors."

1.7 Projection given in the Perspective Plan for all product sales was 59.53 million tonnes with a market share of 58.8% in the year 1999-2000. IOC stated the market share had fallen to 54.9% in 1993-94.

1.8 IOC's growth in sales *vis-a-vis* industry growth during the period 1988-89 to 1993-94 was as given below:

	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94 (Prov.)
Qty.(MMT)	28.99	31.01	31.42	32.37	32.98	33.27
IOC Growth(%)	7.05	6.96	1.32	3.02	1.88	0.90
Ind. Growth(%)	7.3	8.7	1.3	3.5	3.9	2.4

1.9 Asked to explain the reasons for decline in growth, the Ministry of Petroleum and Natural Gas informed the Committee in a written reply as follows:—

> "IOC had kept the target of 58.8% for the year 1999-2000 in the Perspective Plan prepared in April, 1989 on the basis of the anticipations prevailing at that time. Here it has to be noted that under the administered price regime and pool mechanism the products of all the oil companies are shared in accordance with their

market share determined on the basis of their sales plan entitlement. The present SPE of IOC is 56.8% of the total petroleum products being marketed by the Oil Marketing Companies. The share of IOC has declined particularly due to lower offtake by certain bulk consumers and inadequate sales under the retail trade. However, now the IOC has been given a share of 56.5% in the retail outlets, which will increase its retail sales also. During the first half of 1994-95, the market share of IOC has increased by 0.2% over the corresponding period during 1993-94.

Under the administered pricing, the business of IOC will continue to grow in accordance with its share on account of additional demand being generated in future years. However, under de-regulated regime, it will have to make efforts to maintain its market share to increase its business by being competitive and providing better customer service. The Perspective Plan of IOC will have to be reviewed in accordance with the changes not taking place in the oil sector and the economy."

1.10 In a note IOC stated that recent liberalised economic policies and fiscal restructuring in the country are offering many new opportunities and challenges to the Corporation. Both Corporate Perspective Plan and Long Range Plan are presently being updated in order to ensure that the long term plans are in line with the national policies.

1.11 When asked to explain how the new economic policy has affected the perspective of the Company, the Chairman, IOC stated in evidence:

"The strength is that we shall get more flexibility, more authority, more powers and more ability to decide on our own. The threat is that earlier all future refineries were coming up in the public sector. But now refineries will come up in the private sector also. So, our share of new refineries will go down. The other threat is that once the private sector refineries come up, they will be marketing the product which they will be refining. Our intention is to sign agreements with them so that we can market the product of the new refineries. So far we have succeeded in one case. Other may or may not agree. Then, there may be competition also, if kerosene and LPG are privatised and if at some point of time the subsidies are removed, we will have to compete with them. At some point of time, if the administered price system changes, then everybody may be free to put up their own petrol pumps. Right now they are coordinated by the Government. So, that will also be a threat. Of course, this may be an opportunity also."

1.12 Explaining further the impact of the new economic policy, the witness stated as follows:

"The first thing, of course is that some of the areas where we make the plan are: refinery, pipeline and marketing. On the refinery side,

as of now, the new policy has not affected us much because nobody has stopped us from making the investment that we have planned earlier or are planning now. The only difference is that had the new policy not been there, all new refineries would have been with us or with our sister companies in the public sector. So, that is the impact of the new economic policy and we have to face it.

On the marketing side, we are trying to have good relationship with the new private parties coming in so that we can sign agreements with them to market their products. Some may agree and some may not agree also. Those who do not agree, we lose the market participation to that extent in the future. So, our strategy is to try to cultivate MoUs with the private parties."

1.13 On being countered with the view that entry of the private sector may reduce the participation of PSUs like IOC, the Secretary, Ministry of Petroleum & Natural Gas stated in evidence as follows:—

"If you go percentage-wise, then without having privatised, a project of 100 million tonnes would be completed by the turn of the century if the refinery is allowed to grow with 3-4-5 public sector units. But if the same is shared with private sector then there will be growth to the public sector as well as the private sector. The growth will be in absolute number."

1.14 When it was pointed out that the Ministry's view was quite different from that of the Company's, the witness went on to say:—

"So, if the IOC express a view that their percentage, come what may, should always be 46 and nothing less, on that perception their statement is right, but the Government does not perceive it that way. Government says we will have growth in absolute terms, may not be in percentage terms, and you are also allowed to grow through your efforts, but it is the country that should get the total refining capacity."

He added:—

"The Corporation has a corporate view and the Government has the Government view. There is nothing wrong in it."

1.15 Expressing the view that entry of the private sector is not a threat to PSUs, the Secretary, Ministry of Petroleum and Natural Gas remarked during evidence as follows:—

"Firstly, there is a growing market. Secondly, as long as they are competitive, there is no reason to be worried about. Moreover, since all the investments have already depreciated they have got scope for larger markets. We have discussed this with the industry and as I said, as long as you are competitive, you should not be worried about the private investments."

(d) *Memorandum of Understanding (MoU)*

1.16 The first MoU was signed between IOC and the Ministry of Petroleum and Natural Gas for the year 1989-90. It is stated in the MoU for the year 1993-94 as follows:—

> "To enable attainment of the aims and objectives of this MoU, IOC will have the powers exercisable by MoU signing companies as per various Government orders from time to time relating to capital investment, business visits abroad, wage revision, incentive scheme, voluntary retirement, transfer of functional directors, etc.".

1.17 The Committee desired to know the experience of IOC in signing MoU with the Government over the years, IOC stated in a note:—

> "The first MoU was signed between IOC & MOP&NG for the year 1989-90. The performance of the Company in respect of MoU since 1989-90 has been in the range of excellence."

1.18 On the need for greater delegation of powers under the system of MoU, IOC stated in a note as follows:—

> "In the new liberalised environment, speedy clearance of the projects by the Government was essential. As the company was generating its own resources for investments, either the company or at most, the administrative Ministry should be empowered to clear the projects to speed up the process. Company should also have the power to enter into joint venture independently."

1.19 On this issue, the Chairman, IOC stated in evidence as follows:—

> "We have been asked for more authority on investments because right now, our Board has a power of Rs. 50 crore and almost 70 to 80 percent of all our requirements are funded by ourselves."
>
> The witness continued:—
>
> "We have gone to the Government to say that we should get more power on investment. The other area where we need more freedom is in entering into collaboration and joint ventures."

1.20 When asked whether the commitment on the part of the Government with regard to delegation of more powers has been complied with, the Secretary, Ministry of Petroleum and Natural Gas replied during evidence:—

> "Yes, some things have been given partly and some have not been complied with. Regarding capital investment, as I said, what we have been wanting is more than Rs. 50 crore. We wanted to increase. They wanted to increase. This decision has come from the Finance Ministry. As I said the Committee and the Deputy Chairman, Planning Commission made some recommendations. I hope something would come up."

Regarding business visits abroad, earlier even a Functional Director's business visits abroad were to be approved by the Government. Now this power has been delegated to the Chairman. Only Chairman's approval goes to the Government.

Regarding wage revision, in respect of union based employees, it has been fully delegated to the managers. It need not come to the Ministry.

Incentive and Voluntary Schemes are governed by the inhouse rules which they have and for transfer of Functional Directors the rule is on the recommendations of the Chairman and the approval of the Ministry, it can be done. It need not go to the ACC. To that extent it has been delegated.

The witness added:—

> "The first main point is greater delegation of power, which has to be done. Firstly, the limit has to be raised. If the limit is Rs. 200 crore, then there will be lesser projects, which each Ministry will be dealing. Except giving more delegation, it does not seem to cut down these delays."

1.21 On being asked to comment on the response of the Government to the proposal of IOC for more powers with regard to entering into joint ventures independently on their own, the Secretary, Ministry of Petroleum & Natural Gas stated during evidence:—

> "I personally agree with this point. Then again, if the Government money is invested on shares, then the proposal has to go to the Cabinet for its approval. I feel that this joint venture flexibility should be given to them. It takes some time to get the approval of the Cabinet."

In response to a question as to whether the Government is fully satisfied with achievements of MoU, the witness replied during evidence as follows:—

> "In fact, MoUs can be improved. For example, some of the powers that have been given or the Government has been able to give, there are overall high policy constraints, which have not been given. It is not the Ministry's contention that MoUs cannot be imporved. It can be improved. Basically IOC has been asking for better delegation of powers. There should be quicker decision making in respect of project implementation. In fact, we have also been asking that there should be further delegation of powers. For example, IOC handles very large projects. There is a separate Committee appointed by the Department of Project Implementation who are going into this aspect."

II. PROJECT IMPLEMENTATION

(a) Cost and Time Overrun

2.1 From the information furnished by IOC, it was seen that out of 60 projects costing more than 10 crores undertaken/completed during 1990-91 to 1992-93 there were cost and time overruns in many of the projects, resulting in revision of project estimates. In some cases the scope of the project was changed subsequently. On the other hand, there are a few projects where the actual cost incurred was far below the approved cost.

2.2 The following table gives a glimpse of slippages in cost and time in respect of Projects completed by IOC during the last three years:—

S.No.	Name of Project	Cost of Project (Rs. Crores)			Completion Period	
		Original	Revised	Actual	Original	Actual
	Refineries and Pipelines Division					
1.	Revamping/heat exchanger Optimisation in AVU—I & II at Barauni	11.00	—	11.57	Feb. 90	Dec. 90
2.	Increase in production of Slack Wax at Barauni	6.65	12.7	11.55	July, 89	Nov. 91
3.	UDEX Debottlenecking at Gujarat	16.1	—	20.53	Oct. 92	Oct. 93
	Pipeline Division					
4.	Mandatory Crude Oil Tanks at Vadinar	17.42	—	15.86 (till July, 93)	June, 92	June, 93
5.	Haldia-Mourigram Rajbandh Pipelines	14.15	12.48	5.77 (till July, 93)	March, 92	Ph.I completed in May, 93
	Marketing Division					
6.	New Depot at Barauni	11.82	—	9.375 (till 31st March, 93)	March, 92	March 92
7.	New Depot at Singrauli	11.24	—	8.50 (till 31st March, 93)	Feb. 92	June, 92
8.	LPG Mktg. Facilities	381.00	373.18	361.13 (till 31st March, 93)	March, 88	March, 91

2.3 In response to a query as to whether those factors which were responsible for slippages in time and cost could not be anticipated at the time of preparation of Feasibility Reports and DPR, IOC stated in a written reply:—

"Common factors which are encountered and contribute to time and cost overrun of projects are time consuming procedures for obtaining approvals for licensors/technological tie-ups, import of materials etc., foreign exchange problem, location and site factor, change in scope, etc.

Besides these, there are other common factors which affect cost overrun, e.g.:—

(i) Statutory changes, rate of duties an taxes.

(ii) Escalation — Forward escalation is not included in FR as per Government guidelines.

(iii) Change in foreign exchange rates.

(iv) Abnormal market conditions.

Generally, these factors cannot be anticipated at the time of preparation of Feasibility Reports and DPR."

2.4 Asked whether such lapses in the project formulation and implementation are not indicative of lack of project planning in the Company, IOC stated in a note:—

"IOC is having a very comprehensive and meticulous planning and monitoring system for expeditious implementation of projects. However, the factors such as time consuming procedures, foreign exchange problem, statutory changes in duties and taxes, location/site factor etc. cannnot be anticipated and these are beyond control of project planners."

2.5 Enquired about the steps taken by the Company to ensure that the projects are implemented with the approved time-frame and cost estimates, IOC stated in a note:—

"IOC is having a very comprehensive planning & monitoring system in association with our consultant for expeditious implementation of the project.

Before getting final approval of the Government it has been our practice to start project activities like survey, land acquisition, soil investigation, process licensor selection, basic engineering, preparation of purchase requisition for long delivery items, tenders etc. Dedicated multidisciplinary project group is formed at HQ and site for the implementation of the projects.

Once the project is approved, computerised PERT Network is prepared covering all project activities and highlighting critical milestones. Targets for physical progress and financial outlay (commitment and expenditure) are generated based on these activities. Finalisation of MRs, tendering schedules is done for monotoring and control of placement of purchase orders and works contracts.

Expeditious execution of work at site is done by ensuring timely delivery of materials and generating adequate work front. Planning and monitoring of each project activity is meticulously done.

Based on progress achieved, corrective measures are taken to adhere to completion schedule. This review is done at all levels at site and HQ at regular intervals."

Broadly, following monitoring system is being followed for the projects under implementation.

(i) Computerised PERT Network and Break Down Structures are prepared for planning and close monitoring of activities.

(ii) Project progress is reviewed on a weekly basis by ED (Projects)/ GM(Projects), at HQ and by IOCL/EIL with contractors at site.

(iii) Monthly review jointly by IOCL & Consultant and formulation of action plans.

(iv) Monthly review of major projects by all functional Directors in Corporate Management Committee Meeting.

(v) Monthly review of all projects by Ministry Monitoring Cell and IOCL.

(vi) Monthly "Flash Report" indicating critical milestones achieved, reasons for slippages, if any, expenditure incurred etc. is submitted to Ministry of Programme Implementation.

(vii) Quarterly review of all projects by Chairman, IOCL alongwith other functional Directors.

2.6 When the Committee desired to know whether there was any monitoring system in the Ministry so as to avoid the cost and time over-run of projects in IOC, the Secretary, Ministry of Petroleum & Natural Gas stated in evidence:

"Sir, in respect of projects costing Rs. 50 crores and above, we have set up Ministry Monitoring Cell. This Cell closely watches all the projects and gives monthly report highlighting areas of concern. Firstly, the management is alerted and we also from the Ministry side take the issues with the management. For example, if there is some external factor then we take up the matter with them to see that the matter is resolved and the project can go up. This is done in the case of projects costing Rs. 50 crores and above.

As far as projects costing over Rs. 10 crores and below Rs. 50 crores are concerned, they are reviewed at the Board level. For example, whenever they have problems with external factors, which they are not able to resolve at the local level, then we take up with the Chief Secretaries or with the the Ministry of Environment or with the Ministry of Home Affairs. I can say that except in one project, in all the other projects there is no cost overrun."

2.7 When enquired whether responsibility has been fixed for delay and escalation of cost in respect of projects implemented by IOC, the witness stated as follows:—

> "When they come up with any proposal for time and cost overruns, today the Government is not accepting any proposal unless the responsibility is fixed."

(b) *Approval of Projects*

2.8 The time schedule prescribed by the Ministry of Finance (Department of Expenditure) for clearance of project proposals is:—

(i)	Circulation of the Feasibility Report by the Ministries after receiving it from the PSUs to various appraising agencies (Any examination within the Ministry could be done simultaneously while the Reports are examined by the Appraising Agencies).	-1 Week
(ii)	The pre-PIB meeting to be held thereafter.	-6 Week
(iii)	Issue of minutes of the pre-PIB meeting by Financial Adviser of the concerned Ministry.	-1 Week
(iv)	Circulation of the PIB Memo to the Planning Commission.	-4 Week
(v)	Appraisal Note of the Project Appraisal Division of the Planning Commission (In case further clarifications are required to be furnished by the Ministries to the PAD, they should do it within the stipulated date so that the time limit is adhered to).	-4 Week
(vi)	Submission of PIB Note to the PIB Sectt in the Department of Expenditure after the receipt of the PAD Note.	-1 Week
(vii)	PIB meeting to consider the proposal thereafter.	-2 Week
(viii)	Issue of the minutes of PIB.	-1 Week
(ix)	Circulate the Draft Note for the Cabinet Committee on Economic Affairs (CCEA) after the issue of the PIB minutes.	-4 Week

2.9 The Committee desired to be furnished with the stage-by-stage details of projects which were considered by Government for approval in the last five years. The Government furnished the following information:—

Name of Project	FR (Stage-I) submission offer	Govt. Approval	DFR (Stage-II) Submission of DFR	Pre-PBI meeting	PIB, meeting	CCEA approval	RCE Submission of Rice	Pre-PIB meeting	PIB meeting	CCEA approval
(A) Approved Projects Kandla Bhatinda Pipeline	30.6.88		30.6.88	6.9.88	20.1.89	20.8.90	20.2.93	6.4.93	25.5.93	
Viramgam Chaksu Panipat Pipeline	15.4.91		1.5.91	17.9.91	23.4.91	7.10.92	-NA-	23.4.92	7.10.92	
Salaya Viramagam Augmentation	16.5.91		25.5.91	17.9.91	23.4.92	7.10.92	-NA-	23.4.92	7.10.91	
2nd SBM	16.5.91		25.5.91	17.9.91	23.4.92	7.10.92	-NA-	23.4.92	7.10.92	
LPG Import facilities at Kandla	4.4.89		21.8.89	4.9.91	22.11.91	3.11.92	30.4.93	30.11.92	30.4.93	
Panipat Refinery Project		—	—	May'91	Sep'91	Apr'92	Oct' 92	--Not applicable--		
Digboi Refinery Modernisation	—	Sep'86	May'87	Jan'88	Apr'88	Dec'88	Jun'89	Dec'91	Mar'92	Oct'92 May'93
Catalytic Reformer Unit, Digboi	Jun'88	Feb'89	Feb'89	Mar'89	Aug'89	Feb'90	Aug'92	Dec'92	May'93	Sept'93
Catalytic Reformer Unit, Barauni	Jun'88	Feb'89	Feb'89	Mar'89	Aug'89	Feb'90	Mar'92	Aug'92	Nov'93	Feb'94

1	2	3	4	5	6	7	8
Catalytic Reformer Unit, Mathura	Jul' 90	Jan' 91	Feb' 93	May' 93	Nov' 93	Mar' 94	--Not applicable--
(B) Projects yet to be approved							
Gujarat Expansion	Apr' 90	Dec' 90	Feb' 92* (Part-I) Dec' 92* Part-II)	May' 92 (Part-I) By 3.0 MMTPA Dec' 92 (Part-II)	Apr' 94	Awaited	--Not Applicable--
New Coker at Digboi	**	**	Nov' 93	Feb' 94	Sept' 94	Awai-ted	--Not applicable--
Matching Secondary Processing Facilities at Mathura	May' 93	Yet to be approved					
Grassroot Refinery in Eastern Sector	Aug' 94 (Update)	Yet to be approved					

* DFRs were submitted separately since DFR(Part-I) dealing with crude Distillation unit could be submitted earlier as it involved indigenous technology while DFR (Part-II) containing revamp of existing FCCU was submitted later as it required moretime due to technology assistance from foreign licensor.

** Stage-I clearance for the proposal was received alongwith Digboi Refinery Modernisation Project.

(c) Gujarat Refinery Expansion

2.10 Ministry of Petroleum & Natural Gas had asked IOC to prepare Feasibility Report for expansion of Gujarat Refinery in December, 1989. IOC submitted, Feasibility Report to the Government in April, 1990. Stage I clearance was given by Government in December, 1990 with the condition to submit DFR in two parts. (i) Indigenous portion by June, 1991 & (ii) FPU/FCCU Revamp by December, 1991. DFR (Part-I) for connected facilities requiring indigenous technolgoy was submitted in February, 1992. Subsequently at the pre-PIB meeting held in May 92 it was decided that the combined PIB note integrating DFR (Part-I) and DFR (Part II) should be submitted. The combined PIB note was submitted in June, 1993.

On being enquired about the reasons for such a long delay in the processing the project proposal for expansion of Gujarat Refinery, IOC replied in a note as follows:

> "Although preliminary engineering work was done as per schedule, cost estimate could be furnished by EIL, our consultants, only in July, 91. This got further delayed for recasting of cost estimates due to Rupee devaluation in June and July, 91 as well as effect of 1991 Budget. It was also considered prudent to 1991 Budget. It was also considered prudent to firm up availability of crude oil from Gujarat oil fields. After re-firming availability of crude oil from Gujarat oil fields in Nov. 91 the proposal was re-examined and submitted to the Government in Feb. 92.

M/s UOP are the process licensors for the existing FCCU. Process design for revamping had to be done by them only and it took more time for finalisation of commercial terms and conditions. Also, further study of various process options such as, processing of heavier cut VGO in FCC and consequent 2-stage regeneration had to be examined. In spite of constant follow-up by IOC there was delay in submission of process Package by M/s UOP. After firming up detailed cost estimates, DFR was submitted to the Ministry in Dec. 92.

The DFR (Part-I) was considered in the pre-PIB meeting held on 12th May, 92 and the same was recommended for considereation of Public Investment Board. The PIB Note was circulated to the Appraising Agencies in Nov. 92. The DFR (Part-II) was considered in the pre-PIB meeting held on 24th Dec. 92 and the same was recommeded for consideration of Public Investment Board subject to firm availability of crude. It was decided in the pre-PIB meeting that the combined PIB Note integrating DFR (Part-I) and DFR (Part-II) should be submitted. Accordingly, a combined PIB Note integrating DFR (Part-I) and DRF (Part-II) should be submitted. Accordingly, a combined PIB Note was submitted in June, 93."

2.11 Downward revision of crude availability by ONGC was stated to be one of the reasons leading to delay in approval of the project. Explaining the developments IOC in the note stated as follows:—

"In Feb. 93, ONGC made downward revision in the crude availability from Western On-shore oil fields which necessitated to arrange supplementary crude requirements for the proposed expansion by augementing the Salaya-Viramgam and Viramgam-Koyali sections of the existing Salaya-Mathura Pipeline. Accordingly, a Detailed Feasibility Report was submitted in July, 93. As the pipeline augmentation is linked with the Refinery proposal (DFR Part I & II), combined PIB Note integrating Refinery and Peipline proposal was circulated for consideration of Appraising Agencies in Jan, 94."

2.12 On being asked as to how could downward revision in crude made by ONGC in 1993 could be stated as a reason for not taking a decision on the project since 1990, the Secretary, Ministry of Petroleum & Natural Gas stated in evidence:

"Sir, the only answer could be that the whole project could have been handled in a different manner instead of an integrated one. It is a hypothetical situation. I agree with your views. If we had not linked the project to the pipeline availability, or with the FCC, I think, it could have been decided in a different manner. But the project as a whole, physically could have been completed if we had not followed an integrated approach. Toady it is hypothetical situation."

2.13 Enquired about the latest position of the project, the witness stated:

> "Sir, all the process formalities have been completed except that the environment clearance is required before we take the note to the Cabinet Committee on Economic Affairs. We are persuing the matter with the PIB and as soon as we get the clearance we will submit it to the CCEA....The PIB has to clear the proposal before it is submitted to the CCEA. It has not yet been submitted. Only after the Ministry of Environment clears the proposal, it would be submitted to CCEA. Cabinet secretariat will not accept the proposal unless it is complete in all respects."

2.14 The Committee wanted to know specifically by when the project was expected to be cleared. The witness then replied:

> "We are pursuing the matter and we should be able to do it by December this year."

(d) Expansion of Haldia Refinery

2.15 The Committee were informed that feasibility of expanding Haldia Refinery was examined way back in 1980-81 and feasibility report for 3.0 MMTPA expansion of Haldia Refinery was submitted to Government in June, 1981. Subsequently, based on the discussions held with the Government, IOC examined the alternative processing schemes for maximisation of middle distillates. Accordingly, a revised feasibility report was submitted to the Ministry in February, 1993.

2.16 The proposal was not approved finally. Stating that non-availability of infrastructure was the reason for that, the Ministry of Petroleum & Natural Gas stated in note as follows:

> "The proposal was not considered attractive as the cost was as high as a grassroot refinery and there was no benefit of any infrastructure of existing facilities as these were found fully saturated for existing operations."

IOC stated in a note as follows:—

> "In Oct. 83, a meeting was taken by JS&FA, Ministry of Petroleum a Natural Gas to review the requirement of funds for the above project *vis-a-vis* plan provision for the other grassroot refineries. Subsequently, a working group was constituted in March 84 to study the additional refining and secondary processing capacity required in the country during 7th Five Year Plan. The working group submitted their report in May 85 which did not recommended expansion of Haldia Refinery."

2.17 According to IOC, in the meantime with a view to improve the profitability of Haldia Refinery, various projects like debottlenecking of crude distillation unit, sulphur recovery unit, mandatory crude oil tankages, additional product tankages, etc. were implemented. IOC stated that with implementation of above projects, the available land and infrastructure facilities as well as cushion available in utility generation facilities have

mostly been used up which were earlier considered in low cost expansion. Hence, expansion of Haldia Refinery by 3.0 MMTPA would now have to be viewed virtually as a grassroot facility.

2.18 Asked to furnish comparable analysis of economics of expansion of the existing refinery and setting up of a grassroot refinery, the Ministry of Petroleum & Natural Gas stated as follows:—

> "The cost of expansion of any existing refinery is much less as compared to a grassroot refinery due to the availability of infrastructural facilities *viz.* utilities, offsites, despatch facilities, land etc. This, however, varies from refinery to refinery depending on operating cushions available in the existing infrastructures, as above. The cost of Gujarat Refinery expansion is about Rs. 210 crores per MMTPA of crude processing capacity *vis-a-vis* around Rs. 675-700 crores per MMTPA of a similar grassroot refinery. In case of Haldia Refinery, debottlenecking of CDU & Lube oil block have been carried out to improve its profitability as well as SRU and crude/product tankages installed to meet MOE&F stipulation and OCC norms respectively.
>
> Expansion of Haldia Refinery comprises of process units like 3.00 MMTPA crude distillation unit, Hydrocracker, Hydrogen Unit etc. Installation of new power plant, effluent treatment plant and associated utility/offsite facilities is also envisaged under expansion project. As such, though cost of expansion of Haldia Refinery as envisaged will be slightly lower than a grassroot refinery of same capacity, it will be much higher than low cost expansion of refinery like Gujarat Refinery expansion project."

2.19 In the meantime, there was another proposal to expand Haldia Refinery by one MMTPA. About this proposal IOC stated in a note:

> "Refinery needs to use low sulphur fuel oil in process unit furnaces and boilers to meet the environmental stipulation w.r.t. SO2 emission/stack heights of furnaces and boilers which cannot be met by the existing infrastructure and processing pattern. The feasibility of low cost expansion of Haldia Refinery by 1.0 MMTPA which will also produce low sulphur fuel required for meeting the environmental stipulations, as above, has been examined by IOC. Accordingly, an investment proposal at an estimated cost of Rs. 45 crores is being put up to IOC Board in July, 1994 for obtaining necessary approval. The same would be implemented in 24 months after approval."

2.20 During evidence of representatives of IOC on 26th June, 1994, representative of IOC stated as follows:

> "Sir, One million tonne unit is going to come up in the next Board's meeting and we will get it approved in that meeting itself. Then the work will start for its expansion."

2.21 During a evidence of the representatives of the Government, the

Secretary, Ministry of Petroleum & Natural Gas informed the Committee as follows:

> "What I understand is the Board has raised some queries. They have to come back with answers to the Board again."

(e) *Grassroot Refinery in Eastern India*

2.22 IOC had submitted Feasibility Report for Stage-I clearance in August 1989 for setting up of a 6.0 MMTPA refinery at Daitari in Cuttack District, Orissa. The Feasibility Report was discussed in the pre-PIB meeting in October 1989, wherein it was decided to prioritise between the three grassroot refineries, *viz.* Central India, Western India and Eastern India. After the prioritisation exercise the refinery in Eastern India was ranked as No. I in the Report submitted in June, 1990.

2.23 In a note IOC gave details of different stages of the proposal. It was stated that pending Government decision in respect of Stage-I clearance of the proposal for 6.0 MMTPA refinery in Eastern India, IOC had taken advance action towards identification of site for refinery as well as the crude oil receipt facilities. Ministry of Petroleum & Natural Gas were approached again by IOC in August 1991 with updated cost estimates for the project with a request to expedite stage-I clearance. The revised report of the Sub Group on refineries was submitted in Februrary, 1992. Ministry of Petroleum & Natural Gas in February, 1992 directed IOC to initiate action in respect of the refinery in the Eastern region. Accordingly, revised Feasibility Report for Stage-I clearance was submitted to MOP&NG in July 1992. The preliminary project cost based on June 1992 prices was Rs. 3031 crores including a foreign exchange component of Rs. 336 crores. In the month of July 1992, Government of India had issued Press Notification for setting up three refineries in Eastern India, Western India and Central India in the Joint Sector. Based on this, a common Press Notification for selection of Co-promoter was issued on 18th July 1992 by IOCL, BPCL & HPCL. As per this notification the equity participation in the joint venture was to be 26% each by the respective public sector refining company and 26% from the co-partner and the balance 48% from the public (including NRIs and foreign investors). Responses were received from M/s Oman Oil Company (OOC), Oman; International Petroleum Investment Company, Abu Dhabi; Kuwait Petroleum Corporation, Kuwait; etc.

2.24 Explaining further on the question of selecting a co-partner for the Refinery, a representative of the Company stated during evidence as follows:-

> "These three refineries, East, West and the Central, were put in the international market by way of an international press release. It was decided by the Government that these three refineries will be

respectively, East Coast with IOC, Western with HPC and the Central with BPC. It was a Government of India's decision on allocation and a joint press release was sent to the Indian and International companies. Consequently, Oman Oil Company was the one company which was interested in all the three. The Government of India discussed and decided, for various reasons, that the Government could not give more than two for one company. So, they agreed for BPC and HPC. The Government advised IOC that we should not pursue with Oman. Simultaneously, in response to the press release, we received various offers."

2.25 Enquired about the reasons for not following up the offers received from other oil companies for setting up the refineries in the joint sector, IOC stated in a note:

"In August 1992, Ministry of Industry had issued an LOI to M/s Ashok Leyland Limited (ALL) for setting up a refinery in Eastern Sector. Discussions were held with them.

Separately, responses were received from various parties like M/s Oman Oil Company, Kuwait Petroleum Corporation, International Petroleum Investment Company, Abu Dhabi.

Number of discussions were held with OOC. However, Government of India decided on 11.1.1993 that the joint venture refineries in Central India and Western India will be set up with Omani participation by BPC and HPC respectively and IOC would not be involved in a joint venture with OOC for East Coast Refinery.

Discussions were also held with IPIC, Abu Dhabi. However, IPIC required IOC to obtain within two months of signing of MOU certain undertakings/guarantees from Government of India regarding obtaining tax holiday for 8 years, guarantee for return on net worth, exemption from all with-holding taxes, etc. The matter was referred to the Government, and based on the reply received from Government M/s IPIC was informed that such matters will be governed as per prevalent laws of the land. Thereafter, IPIC has not shown interest in the project.

IOC has also held discussions with Kuwait Petroleum Corporation."

2.26 On the question of association with Ashok Leyland for setting up the Refinery, a representative of IOC stated in evidence:

"Regarding the Ashok Leyland, the Government of India gave a letter of intent to Ashok Leyland and not to IOC, to set up a refinery in East Coast. In response to the press release, they wrote to us saying that we could join hands with IOC also. But, they had mentioned that IOC's equity will be 25 per cent. But, we had told them that we would not take less than 26 per cent equity and

thereafter series of discussions took place..... Our position has been explained to Ashok Leyland that we could agree on these terms. The discussions have not yet been culminated in a final decision."

2.27 On the policy of the Government with regard to setting of refineries in the joint sector, the Chairman, IOC stated in evidence:-

"Initially, sometime in 1992, we wanted to set-up a refinery at Paradeep by ourselves. Then the new Government policy was announced that all future refineries set-up by the public sector companies must be in the joint sector with a definite equity structure. That is how our original idea of setting up a refinery of our own was replaced by the new policy of joint sector partnership. Then we were in search for joint sector partner. Various people responded, including Ashok Leyland, and having talked to all serious parties and negotiated with various companies we had given final recommendations to the Government. The Government has to now apply its mind and take a view."

2.28 On a decision taken to go ahead with the refinery on own and associating joint venture partner at a later stage, the Secretary, Ministry of Petroleum & Natural Gas stated in evidences follows:-

'IOC recommended on their side that they wanted to go ahead with KPC as a joint venture partner. In order to see that there is no delay, because this process had already taken much time and the other two joint ventures have already started, if for any reason, it is not possible, we said, "Let IOC go ahead on their own and take a decision regarding the joint venture partner, instead of totally stopping the refinery". So the direction we have got was on the second alternative, namely going ahead without delaying.'

2.29 The Committee wanted to know whether the site for setting up the refinery was identified. IOC stated in a written reply:—

"In 1987, Chairman, IOC, constituted a Site Selection Committee consisting of representatives from Indian oil corporation Limited and Engineers India Limited. This Committee, after visiting 7 sites offered by Government of Orissa and on the basis of techno-economic study, identified and zeroed down to a site in DAITARI as the most suitable location for setting up of the refinery.

Government of India, *vide* Ministry's letter No.R-31011/1089-OR.I dated 6.2.1992 has constituted a Site Selection Committee consisting of representatives from Ministry of Environment & Forests, Planning Commission, Railways, OCC, IOCL and CHT, for selecting a suitable site in Eastern India for setting up of a 6.0 MMTPA grassroot refinery in Eastern India. Members of the Site Selection Committee visited 10 (ten) sites, offered by State Government in June 1992. The Committee recommended DAITARI as the most

suitable site location of the refinery in Eastern Sector. However, location of Refinery is yet to be decided."

2.30 The Secretary, Ministry of Petroleum & Natural Gas stated during evidence as follows:—

"As I submitted, site is going to be near the Paradeep Port. Earlier it was decided that the project is hundred per cent an IOC refinery. This was the view taken earlier. Later on, it was decided that the project should be a joint venture. Since the joint partner also makes investment, it was decided to have his view and then decide on that basis. In order to avoid delay, we have told the IOC to go on their own. Now they have actually gone there. They will zero in on the actual site after taking up a survey. Otherwise it is going to be near the Paradeep Port. Now it is decided that we shall go on our own. We have asked them not to stop the work... As part of the stage-I, they will actually go and survey the land."

III JOINT VENTURE

(a) *MoU with M/s Mobil Petroleum Co. Inc.*

3.1 IOC signed an agreement on 17.1.94 with M/s. Mobil Petroleum Co. INc., USA to import, manufacture and market Mobil branded lubricants in India as well as Nepal and Bhutan.

3.2 The joint Venture Company will have 50-50 participation by IOC and Mobil. The authorised capital of JVC will be Rs. 50 crores of which paid-up and subscribed capital will be rupees equivalent of US $ 6 million on the date of receipt of subscription for the equity shares from both Mobil (US $ 3 million) and IOC (Rupees equivalent of US $ 3 million).

3.3. Stating the factors which weighed with IOC to enter into MOU with M/s Mobil Petroleum Company the Company stated in a note that IOC had formed and operated a successful Joint Venture during the period 1964 to 1974. Consequent to liberalisation of Indian Economy and entry of a large number of Multi National Companies into lube sector, all PSUs opted for Joint Venture/Strategic Alliances to develop better competitive edge in the market. Considering its past successful association and also its top ranking position in the world market, IOC decided to form a Joint Venture with Mobil. It was also stated that the following benefits were envisaged from the Joint Venture with Mobil:

(a) Setting up of a State-of-the Art Lube Blending Plant at Asaoti, thus facilitating technology upgradation without incurring the cost of technology transfer fees.

(b) Facilitating inflow of foreign funds in the form of part of the investment in the above plant.

(c) Converting a Multinational Company as a partner in Joint Venture in highly competitive environment rather than it becoming a potential adversary, where the brand equity of Mobil would provide a decisive marketing edge.

(d) To facilitate comprehensive collaboration on R&D and to provide access to frontiers of global technology and to continuously upgrade our standards.

(e) The Joint Venture would facilitate penetration into the market segment dominated by the MNEs. Due to the worldwide Original Equipment Manufacturers' approvals enjoyed by the Mobil grades, Joint Venture will also have an easier access into projects involv-

ing import of new technology from abroad under the new liberalised economic policy."

3.4 On the impact of the Joint Venture on IOC's own Servo brand lubricants, the Company stated in a note that considering by various distinctive strengths of the Servo grades of lubricants traditionally marketed by IOC, in terms of quality, cost effectiveness, R&D support, marketing infrastructure and technical services, the creation of Joint Venture in production and marketing of Mobil grade would not adversely affect the performance of Servo. IOC would continue to market Servo grade lubricants with intensified vigour to effectively counter competition. The marketing of Mobil grades of lubricants would be focussed on the customers of MNCs and competitors. In the retail market also these grades would primarily be catering to the segment of the market patronising higher price lubricants of Multi National brands. Till the commissioning of the new Lube Blending Plant at Asaoti, the Mobil grades of lubricants would be blended at IOC's blending plants at Bombay, Calcutta and Madras against payment of service fees fixed on commercial basis. This would be necessary to facilitate seeding of the market perior to the commissioning of Asaoti Plant.

3.5 Asked as to what was the guarantee that when Mobil grades of lubricants are marketed, the market share of IOC's own lubes will not come down, Chairman, IOC stated in evidence:

"There is no guarantee. When we get the market we have to hold it. We have to go into that."

3.6 Replying to a similar question, the Secretary, Ministry of Petroleum & Natural Gas stated during evidence:

"This depends on the consumers preference. We cannot stop Gulf Oil or ESSO from coming and marketing in this country. When they are flooding the market, IOC or public companies must also be ready to meet that market challenge with an equal high technology and brand product. So, it is necessary that they join up with someone else."

3.7 To a specific query as to whether it meant that IOC would not be able to compete if other have collaboration and IOC does not have, the Secretary, Ministry of Petroleum & Natural Gas stated in evidence:

"That is the perception."

3.8. Being asked whether it implied that IOC's products were substandard, the witness replied:

"I do not say that, but international R&D is very rapidly changing. When we talk of IOC today we have not been able to keep abreast of these standards. There is no point re-inventing the wheel. Today when these R&D resources and technology are available for sale the IOC has to upgrade their own products to match with them.

We cannot make a facile assumption that this is going to totally drive out IOC products. If a particular product gains consumer preference, being in a free market, we should go by the rules of the market. Consumer preference need not be logical."

3.9 The Commmittee asked whether in this way the survival in the market of products that have been developed indigenously was not threatened. The witness replied:

"If a system is not good for the country, I think it should go. They have to upgrade their products to bring them to international standards and sell them. They have to change their marketing strategy."

(b) Engaging of a Private Company for Blending lube

3.10 IOC's Joint Venture Company with Mobil also proposes to set up a Blending Plant at Asaoti in Haryana. The plant will be based on latest State-of-Art Technology and will have blending capacity of one Lakh TPA. The investment is expected to be about Rs. 47 crores.

3.11 Enquired as to whether there was any production constraint in Indian Oil Blending Limited (IOBL), a wholly owned subsidiary of IOC, the Chairman, IOC stated during evidence:

"We have three plants. We need one more plant which is coming up near Delhi. The one at Delhi has started as IOC plant but later on it became part of the assets of our Joint Venture with M/s Mobil."

3.12 When the Committee enquired as to what was the need for changing the plant which was started by IOC into a joint venture plant, the Chairman, IOC replied in evidence:

"I submit that initially we identified the need for such a unit in Northern India. We took a piece of land and got the project approved for buildings etc. While this was approved, it was later stopped. At that time it started as a joint venture. Then we decided that the land and other things will become assets of the joint venture."

3.13 When the Committee wanted to know if the Company had entered into a contract with some private party for blending lube, the witness replied in the affirmative. The Committee were informed that M/s Raaj Unocal Lubricants Ltd. was engaged by IOBL for the purpose.

3.14 When it was pointed out that investment for setting up a blending plant could have been made by IOBL itself, the witness stated as follows:

"Sir, I may submit that this party has come on its own. It got a plant readily available. We do not have a plant in the northern region. So, we thought that until our joint venture plant comes, we can make use of this plant...we thought we can do blending in bulk."

3.15 In response to a query from the Committee, IOC furnished the following figures of actual production of IOBL's plants in the last three years:

	Bombay Capacity (135 TMT)	Calcutta Capacity (89 TMT)	Vashi Capacity (11TMT)
1991-92	222.6 TMT	120.3 TMT	10.6 TMT
1992-93	205.6 TMT	121.2 TMT	11.5 TMT
1993-94	203.8 TMT	105.9 TMT	13.1 TMT

3.16 The stock of inventory of Northern Region for the year ending 1991-92, 1992-93 and 1993-94 was stated to be as follows:

	Year Ending 1991-92	Year Ending 1992-93	Year Ending 1993-94
Stock in KLs	22559	34179	39202
MTs	20250	30681	35150

3.17 The sales performance of lubes in the Northern Region in the year 1991-92 to first half of 1994-95 was as under:

1991-92	101 TMT
1992-93	83 TMT
1993-94	78 TMT
April-Sept. 1994	34 TMT

3.18 The Committee were informed that the blending and packaging fee paid to the private company M/s Raaj Unocal Lubricants Limited, was Rs. 1120 per KL whereas it was only Rs. 875/-per KL in respect of IOBL. Enquired about the reasons for paying higher fee to the private company as compared to IOBL, the Company stated in a written reply as follows:

> "Indian Oil Blending Limited is wholly owned subsidiary company of Indian Oil Corporation Limited. The blending fee payable to OIBL has been fixed so as to ensure that IOBL can sustain its operations, fund its capital expenditure requirements and reflect reasonable profits. Whereas blending fee payable to M/s Raaj Unocal Lubricants have been fixed based on the commercial considerations, duly consideraing the blending fee rates of similar plants in India.

As already explained above, blending fees of IOBL is fixed on the basis of different parameters. The fee payable to IOBL is on a lower side due to:

(i) The capacity of IOBL plants is much larger as compared to M/s Raaj Unocal Lubricants Limited and hence incidence of fixed cost is lower.

(ii) For IOBL plants, being very old, the impact of depreciation on the operating cost of IOBL is much lower as compered to impact of depreciation of plant of Raaj Unocal Limited.

(iii) Blending Plant of M/s. Raaj Unocal, being a new plant, has higher investment cost and hence the element of return included in the blending fee is relatively higher."

3.19 The committee noted that in reply to Unstarred Question No.187 dated 7 December, 1994 in Rajya Sabha, it was stated that the blending fee payable to IOBL was Rs.440 per KL which was being considered for upward revision to Rs. 825 per KL with effect from 1 April, 1994.

3.20 The Committee wanted to know the cost economics of blending lube in Delhi vis-a-vis in the existing plants of IOBL. IOC stated in a note as follows:—

"The cost of transportation of sending base oils by Rail to Delhi is approximately 10% cheaper than transportation of packed products by the same mode. The proposal to award contract was finalised based on the following cost economics:

(i) Saving due to incremental volume:

It was estimated that due to better flexibility and quicker response time, we should be able to capture additional business to the extent of 5 TMT per annum. This will result in increased profitability of Rs. 2 crores per annum.

(ii) Savings due to transportation:

Currently we are also moving finished products to Northern Region from Madras, in addition to movement from Bombay and Calcutta plants.

Movement from Madras has to be organised due to restricted availability/flexibility ex Bombay and Calcutta Plants.

About 10 TMT of finished product per annum was expected to move from Madras to Delhi. In view of our proposed blending arrangements, we will be moving base oils in bulk ex Bombay to contract packer's blending plant, which will result in saving of about Rs. 400 per MT, i.e. approximately Rs. 40 lakhs per annum. (Railway freight from Madras to Delhi approximately Rs. 2174 per MT and from Bombay to Delhi is approximately Rs. 1761 per MT).

Hence, additional revenue is estimated at approximately Rs. 2.4 crores per annum (Rs. 2 crores due to incremental volume and Rs. 40 lakhs savings due to freight)."

3.21 When the Committee sought the views of the Government, on the matter the Secretary, Ministry of Petroleum & Natural Gas stated in evidence:

"This is one of the local decisions. This decision was taken by the Board of the IOC. IOBL is a subsidiary. IOC does not have any blending plant to meet in North their demand until new blending plant of IOC comes in the North. They took it temporarily on lease. It was IOC decision. They are making an investment. The plant is taking time. When that plant comes they will not need this."

3.22 The Committee wanted to know such decision was fully justified. The witness replied:

"IOC has to answer this .... They must be accountable. They are responsible for it."

3.23 Asked about the probable time of commissioning of the Asaoti plant, IOC stated in a written reply as follows:

"As per present expectations, the plant at Asaoti to be set up by Indo Mobil Limited a joint venture company of IOC and Mobil Petroleum Inc., USA, is to be commissioned by 1997-98."

3.24 When enquired about the period for which M/s. Raaj Unocal Lubricants Limited has been engaged for blending lube, IOC stated in a note:

"An agreement has been signed between IOC and M/s. Raaj Unocal Limited on 22.2.1994 to blend and package lubricants for a period of five years. During the first 4 years, the quantity to be lended and packaged is 2500 KL per month. In the fifth year, the quantity is 2000 KL per month."

IV. PRODUCTION

(a) Production Performance

4.1 The installed capacity of the refineries of IOC and the actual throughput refinery-wise in the last five years is given below:

(In million tonnes)

	Installed Capacity for 88-89	Installed Capacity w.e.f. 1.4.89	Actual throughput				
			88-89	89-90	90-91	91-92	92-93
Guwahati	0.850	0.850	0.762	0.856	0.783	0.86	0.82
Barauni	3.300	3.300	2.815	2.964	2.416	2.26	2.29
Gujarat	8.100	9.500	8.656	9.108	9.334	9.38	9.78
Haldia	2.500	2.750	2.633	2.824	2.835	3.02	3.04
Mathura	6.000	7.500	6.557	7.208	7.808	8.23	7.84
Digboi	0.500	0.500	0.574	0.570	0.566	0.54	0.54
Total	21.250	24.400	21.997	23.530	23.742	24.29	24.31

4.2 The following table shows the production performance of IOC as a whole from 1988-89 to 1992-93 as compared to Oil Economy Budget/MOU targets:

(Million tonnes)

Year	Installed Capacity	OEB/ MOU target	Actual	%utilisation as Installed capacity	compared to OEB/MOU Target
1988-89	21.250	21.900	21.997	103.5	100.4
1989-90	24.400	22.750	23.530	96.4	103.4
1990-91	24.400	23.645	23.742	97.3	100.4
1991-92	24.400	23.800	24.290	99.6	102.1
1992-93	24.400	24.100	24.310	99.6	100.9

4.3 It is noted from the above table that even though IOC achieved the OEB/MOU targets in the years from 1988-89 to 1992-93, it could not achieve the installed capacity after 1988-89. It may be noted that among

the Refineries of IOC, the actual production was much low as compared to installed capacity in Barauni Refinery during all the years 1988-89 to 1992-93 and in Guwahati Refinery in 1988-89, 1990-91 and 1992-93. Lower Assam crude availability/supplies is stated to be the reason for lower production.

4.4 Enquired about the efforts made to improve the availability/supply of crude to Barauni and Guwahati Refineries and the outcome thereof, IOC stated in a written reply as follows:—

"IOC has been pursuing with OCC/Ministry for allocation of higher crude to Barauni and Guwahati Refineries in various forums viz Crude Co-ordination Meeting, Supply Plan Meeting, QPRs, etc. As a result of this persuasion, Guwahati could achieve a throughput of 0.911 MMT in 1993-94 against MOU target of 0.9 MMT. The crude allocation for 1994-95 has also been raised to the level of 0.95 MMT at Guwahati Refinery.

Although Barauni Refinery has an installed capacity of 3.3 MMTPA, the refinery has never achieved 100% capacity utilisation due to lower crude availability from Assam oil fields. In order to create an alternate source of crude supply to Barauni Refinery as a long term solution. IOC has proposed to lay a new crude oil pipeline from Haldia to Barauni. Stage-I approval has been accorded by the Govt. in Sept'93 DFR has been submitted on 17.3.94 to Ministry of Petroleum & Natural Gas for Stage-II approval. The pre-PIB meeting was held on 20.5.94 wherein the pre-PIB committee has recommended the proposal to be put up for PIB approval. The capacity of the pipelines has been envisaged at 4.2 MMTPA level to match the future augmented capacity of the refinery of 4.2 MMTPA. In the eventuality of nil availability of Assam crude to Barauni Refinery, the above pipeline would be adequate to saturate the augmented capacity of the refinery as mentioned above.

As a short term measure, feasibility of crude transportation from Haldia to Barauni by tank wagons was studied and found to be techno-economically viable. Accordingly, additional facilities are presently being installed to receive/load low sulphur crudes at Haldia and unload the same at Barauni Refinery for processing. These facilities are currently under implementation.

On completion of these proposed facilities, it would be possible to process additional 0.3 MMTPA of low sulphur crudes at Barauni

Refinery over and above the normal processing of Assam Crude as per its availability."

4.5 The actual throughput achieved in the year 1993-94 in Barauni Refinery was 80.8% and in Guwahati Refinery was 101.2%

4.6 Stating the reasons for low productivity, the Chairman, IOC stated during evidence as follows:—

"One of our refineries, Digboi is almost one hundred years old. Other refineries like Guwahati, Barauni and Baroda are also designed on the old Russian designs. But the other companies' refineries are designed on the American multinational designs. As you know in those days the Russian technology was much behind the American technology."

4.7 When asked about the reasons for selecting this technology, the witness replied:

"Sir, you know our national policy in these matters. But our new refinery has been modernized and the productivity of this refinery is comparatively better than the HPCL or the BPCL refineries. Otherwise ours are smaller refineries based on Russian designs which are heavily loaded with manpower. We have decided that as we modernise our refineries we will try to do our best without adding manpower to our refineries."

4.8 Enquired about the steps taken to increase productivity in IOC, the witness stated:—

"We are now on par or better than the other companies when it comes to our Mathura and Baroda refineries, although they could be further modernized. Since our Digboi refinery is about 90 years old, we are expanding it at a cost of Rs. 350 and odd crores. Once that is done, we will generate some manpower which can be redeployed in subsequent years. We will modernise hopefully our other refineries once this is over."

(b) Capacity Utilisation

4.9 The following table shows % capacity utilisation achieved by Bharat Petroleum Corporation Limited (BPCL) and Cochin Refineries Limited (CRL) as compared to IOC:—

	1989-90	1990-91	1991-92	1992-93	1993-94
IOC	96.4	97.3	99.5	99.6	101.4
BPCL	117.3	116.0	115.7	120.5	120.0
CRL	102.7	111.3	107.9	113.8	107.8

4.10 Explaining the reasons for lower capacity utilisation in IOC

compared to other public sector refineries, a representative of IOC stated in evidence:—

> "I would like to submit that barring Barauni all our refineries are running on more than 100 per cent capacity. If you see the records, consistenly you will notice that our refineries are doing well. BPCL is doing at 120 per cent. We have some secondary process facilities for processing of reduced crude. The performance of the refineries is very good. Mathura refinery can still be given more but there are environmental problems. Coming to Barauni we do not have enough crude."

4.11 In this connection, the Chairman, IOC stated as under:—

> "That is entirely due to lack of crude coming from Assam. They are not getting enough capacity of crude. They are getting something around 2.2 to 2.9 million tonnes only. It is something which is entirely outside our control. Thinking on all these lines we have a proposal for Barauni. We have got the approval for pipeline from Haldia to Barauni to bring imported crude oil directly. we are hoping that this will be done early. If this is done, our capacity utilisation will go to 4.2 million tonnes."

4.12 Explaining the reasons for low capacity utilisation and remedial measures taken thereon, the Secretary, Ministry of Petroleum & Natural Gas stated during evidence as follows:—

> "If you exclude the North-East, basically, the performance of IOC refinery is as good as CRL and BPCL. If you look at the total of the IOC minus the North-East, there is no problem. If you look at the total number, what you said is perfectly correct. This is happening because of the situation in the North-East. For rectifying that Haldia-Barauni pipeline is being conceived."

(c) *Cost of Production*

4.13 Actual cost of production against budgetted cost of production for the period form 1988-89 to 1992-93 refinery-wise was as follows:—

(Refining Cost for '000 tonnes)

Refinery	1988-89		1989-90		1990-91		1991-92		1992-93	
	Budge-tted	Actual	Budge-tted	Actual	Budge-tted	Actual	Budge-tted	Actual	Budge-tted	Actual
Guwahati	2435	1812	2288	2027	2342	2376	3030	3030	3422	3121
Barauni	4490	4535	5146	5589	6222	6168	7207	6420	8320	6905
Gujarat	5303	5775	6460	5838	6812	6248	7246	7236	9544	9897

(Refining Cost for '000 tonnes)

Refinery	1988-89		1989-90		1990-91		1991-92		1992-93	
	Budge-tted	Actual	Budge-tted	Actual	Budge-tted	Actual	Budge-tted	Actual	Budge-tted	Actual
Haldia	4469	4125	4759	4512	5656	5385	5969	5950	6820	7076
Mathura	6399	6282	6741	5705	7196	6594	7511	7079	8943	8787
Digboi	1948	2574	2562	2715	3315	2952	3315	3107	3602	4473

4.14 IOC gave the following reasons for increase in the cost of production:—

(a) There has been compounded increase in the consumption of chemicals over the last five years.
(b) In repairs & maintenance there has been a compounded increase of 11.65% over the last five years.
(c) In power & fuel also there has been an increase of 7.64%.
(d) Establishment expenses increased 11.14% over the last five years.
(e) Operating Expenses also increased 12.57%.
(f) Also due to depreciation mainly in Mathura Refinery.

4.15 Asked to give year-wise break up of item-wise increase in the cost of production, IOC furnished the following information:—

	1988-89	1989-90	1990-91	1991-92	1992-93	Compounded % increase
T'Put (COCMTS)	21996	23531	23742	24294	24312	—
Chemicals	4377	5266	7195	7942	8831	15.07
Repairs & Mainten	4538	5368	5578	6689	7875	11.65
Power & Fuel	1676	1668	1618	1811	2422	7.64
Establishment	7103	8235	9264	10260	12047	11.14
OtherOperatingExp.	2953	3276	3969	4347	5339	12.57
Depreciation	5297	3784	3437	3434	4963	−1.29

4.16 The Committee wanted to know the cost of production for IOC's products. A representative of IOC stated in evidence as follows:—

"Refining process is one single process. In our refining, we are not allocating the refining cost for each product. We do not maintain it. The Government has decided certain indices for each product according to its importance... The cost control exercise that we do is relatable to the cost of entire refining process. We are exercising cost control on the refining process as such."

4.17 The Secretary, Ministry of Petroleum & Natural Gas was of the view that cost of refining is less when the refineries are old. He stated during evidence as follows:

"Refining cost depends upon the vintage of the refinery; it depends on when the investment was made, it depends on when the capital is written off. There are refineries today which were set up 20 to

30 years before. Their costs are competitive. They are also going to set up new refineries. Their refining cost will be much more than the other refineries. It depends on the capital, cost configuration, energy efficiency etc., We have to take all these factors into account. Because all our refineries are old, the margins are higher and hence the cost of refining is less, no doubt about it."

4.18 The Committee were informed that control measures were being taken by IOC in the following spheres:

(a) Chemicals, catalyst & stores
(b) Stores
(c) Overtime
(d) Travelling
(e) Printing & Stationery
(f) Communication
(g) Staff car and hiring of taxies and
(h) Repairs & Maintenance

(d) *Productivity*

4.19 Productivity per employee in IOC as compared to Bharat Petroleum Corporation Limited (BPCL) and Hindustan Petroleum Corporation Limited (HPCL) from 1989-90 to 1991-92 is given below:—

	1989-90			1990-91			1991-92		
	IOC	BPCL	HPCL	IOC	BPCL	HPCL	IOC	BPCL	HPCL
Crude Thruput/ Employee (Tonnes)	2723	4843	5834	2748	4753	5128	2811	4687	4550
Value Added/ Employee (Rs. Lakhs)	4.16	5.30	8.87	4.32	6.18	8.71	4.47	7.04	9.16

4.20 Value added per employee in 1992-93 in IOC was Rs. 5.02 lakhs and in BPCL was Rs. 7.96 lakhs and in HPCL Rs. 11.91 lakhs.

4.21 Giving the reasons for low productivity, IOC stated in a note as follows:—

"The Petroleum Industry is under administered pricing system under which the retention margins are fixed for each refinery/ pipeline and marketing activities. The retention margins are provided based on return on capital employed on the net fixed assets and working capital and also standard operating cost for each pricing centre.

In case of IOC refineries especially in Eastern Sector such as Digboi, Haldia and Barauni, the manpower is relatively higher due to manpower intensive Russian/Romanian technology, 90 years old design at Digboi, multi unit operation with independent control room etc. In view of this the value addition per employee in these refineries tends to be lower."

The note further stated that 4 of IOC's 6 refineries viz. Digboi, Guwahati, Barauni and Haldia were of low installed capacity of 0.55, 0.85, 3.30 and 2.75 MMTPA respectively. Further, Barauni has been receiving low crude supplies and the actual crude processing level was about 2.2—2.4 MMTPA only.

Older refineries are manpower intensive due to vintage design at Digboi, old Russian/Romanian Technology adopted at Guwahati/Barauni multi-unit operations with independent control rooms at Digboi, Guwahati and Barauni as against centralised control room approach for newer refineries.

4.22 On measures taken to improve labour productivity, IOC stated in a written reply that the following are some of the measures being taken to improve labour productivity in IOC refineries are:

(a) The Digboi Refinery Modernisation Project which is scheduled for completion by mid 1996, envisages reduction in manpower by 276 in number while increasing the capacity by 0.15 MMTPA.

(b) After implementation of the Haldia-Barauni pipeline project, the crude processing at Barauni Refinery is expected to increase to 4.2 MMTPA from the existing level of 2.2—2.4 MMTPA without any additional manpower.

(c) Manpower studies are planned to be taken up for all refineries through professional expert institutions.

(d) Computerisation has been taken up in all the departments.

(e) *Research & Development*

4.23 Among the Oil Companies in the Public Sector only IOC has an R&D establishment. In the MoU signed between IOC and the Government for the year 1994-95 one of the objectives and obligations of the Company laid down is as follows:

"To create a strong research & development base in the field of oil refining and stimulate the development of new petroleum formulations with a view to minimise/eliminate their imports and to have next generation products."

4.24 About IOC's R & D set up, the Company stated in a note that Research and Development centre of Indian Oil Corporation was set up in 1972 at Faridabad for the development of indigenous technology for manufacturing lubricating oils and grease in the country. After achieving

this, the centre is now working on the refinery processes, catalyst development and evaluation, occupational health hazards due to use of petroleum products, new generation energy efficient lubricants etc. Extensive and modern laboratory facilities have been set up to undertake activities in the following areas:

—Development of lubricants and specialities

—Studies on fuel quality

—Refinery process development

—Studies on waxy crude and product transportation material failure analysis

—Development of test methods on indigenous engines

—Development of fuel efficient domestic appliances.

Regarding the achievements of R & D set up, IOC stated in a note as follows:

"IOC has set up a world class R & D Centre, perhaps one of its kind in Asia, for the development of lubricant formulation and process technology. In the first phase (1972—1984) of its activities, R & D has indigenised lubricant technology and since then almost entire range of lubricant and since then almost entire range of lubricant and grease formulations meeting international quality standards have been developed for automotive and industrial uses including the strategic needs of Defence."

4.25 In this connection, the Chairman, IOC stated during evidence as follows:

"On the first area where we have made the achievement is lubes. In 1974, our collaboration with a multinational ended and then we decided to develop lubes on our own. So, the R&D was commissioned around that time and since then they have given us 95 per cent self-reliance on technology *vis-a-vis* the invention and development of lubes. The second area is R&D in refinery technology, particularly in hydrocarbon technology. The third area is conservation of energy where we have made three very good inventions. One is Nutan Kerosene stove which has thirty per cent more fuel-efficiency. The other is Nutan LPG burner which was the most fuel-efficient burner at one time. The third one is hurricane lantern which is usually used in the villages. Apart from these, there are a few other things also which we have invented. In the new situation of globalisation, etc. we are now getting face to face with the world oil companies. We are now thinking which other areas we should penetrate to keep our hold."

4.26 The R & D allocation made by the company during the last five years and its percentage to total turn-over were as follows:

(Rs. in crores)

Year	Annual Turnover	Annual Expenditure (Total)	R&D Expenditure as % of turnover
1988-89	15342	11.89	0.078
1989-90	17614	18.70	0.106
1990-91	19508	13.21	0.068
1991-92	20825	15.79	0.081
1992-93	24436	15.80	0.065
1993-94	23726	18.59	0.078

4.27 The Committee enquired about the reasons for keeping such low allocation of funds for R & D as compared to turnover. In this connection, the Chairman, IOC stated in evidence:

"One percent of our turnover comes to about Rs. 230 crores. So we may not necessarily go by the percentage of turnover. Sometimes turnover increases by a mere Act of Government in terms of increasing excise or some other duties. So our R & D must be need based.... in tune with the global economy we need to reevaluate our whole allocation to R & D. In our opinion we have been allocating adequate resources."

4.28 A representative of the Company added during evidence:

"The amount which we are spending only on Research and Development is about Rs. 18 crore. This may appear small. But when you compare this figure with that of other National Research Laboratories this is quite big."

4.29 Asked as to whether the amount was sufficient for R&D activities, a representative of IOC replied:

"We are getting all the funds which are required for R&D activities. We have already planned to increase the funds for R&D."

4.30 When the Committee drew the attention of the Company towards the need for strengthening the R&D set up in view of the increasing competition from multinational companies, the Chairman, IOC stated in evidence:

"Our main thrust was on import substitution and keeping it up. Now, with the new environment we have to invest as far as the other people do. We have to change our style and we are changing our style. A lot of multinationals are coming in here. We have to put in the same quality of products in the market."

4.31 When the attention of the Government was drawn to the low

allocation of funds for R&D, the secretary, Ministry of Petroleum & Natural Gas observed during evidence:

"Of course, we have not gone by the percentage. The turnover of IOC is large. Where the technology is becoming fast obsolets, they spend more on R&D. But in the oil sector, it is not found to be so. It is not that what they are doing is sufficient. I agree with you that they should be doing more. But till today, after this issue was raised we reviewed whatever progress that has been made. Your point is, should they not be doing more on R&D. I found that the review has been done at the Company level. There has been a research concept. And whenever IOC wants its project to be recommended by the Scientific Advisory Committee, I think, we will review this aspect. IOC R&D sector should have a technical body, who would not only tell them what type of work they should do and where from money should come, but also it can review them. There is no point in having experts in the Ministry. The Research Council idea is a good model. Certainly they can identify programmes looking after the future 15 or 20 years. Of course, the allocation for it can easily be had from IOC. We will also make funds available from OIDB, etc. So, funds can be made. The Council can advise the structure which will give the plan and the direction to the sector."

4.32 On the steps being taken to strengthen the R&D set up, IOC in a note furnished to the Committee stated that following technology expansion steps were envisaged for R&D activity in the 9th plan:

Development of automotive and industrial oils for new generation equipments.

Development of environment friendly biodegradable lubricants.

Development of synthetic oil based lubricant technology.

Development of aviation and synthetic greases.

Bitumen emulsion.

Multigrade bitumen.

Additive synthesis and pilot plant studies.

Refinery process technology development in the area covering:

—Fluid catalytic Cracking

—Hydrocracking

—Meroxing

—Distillation

—Solvent and catalytic dewaxing

—Solvent Extraction

—Alkylation and oxygenbates technologies for production of high octane unleaded gasoline.

Upgradation of fuel quality.

Waxy crude/product transporation studies.

Equipment inspection and failure analysis and residual life measurement.

Joint collaborative research programme with national laboratories/ organisations.

Domestic Appliances.

Automation and computerisation of engine and testing laboratories.

Basic reseach programmes in each of the above areas for long term goals.

4.33 On collaboration in the field of R&D the Chairman, IOC stated in evidence as follows:

"We are having a lot of collaboration with Indian Institute of Petroleum and we work on Lubricant mainly for marketing. We are doing this independently. In refining process, there is some duplication because they provide services to all other refineries. We are mostly doing for Indian Oil Corporation. This kind of duplication is unavoidable."

4.34 On a suggestion made for using the infrastructure available with the Indian Institute of Petroleum (IIP), the Chairman, IOC responded:

"Definitely we can improve our strategic alliances with indigenous research institutions including IIP. We are already having interaction with them. We will increase it as and when the need arises."

V. MARKETING

(a) *Dealership Network*

5.1 The sales of various products are made directly to consumers or through the vast dealership network. There were 5899 Retail Outlets, 3183 SKO/LDO dealers and 33 Taluka Kerosene Depots as on 31.3.1993 operating in the country. LPG is marketed under the brand name of 'Indane'. As at the end of March, 1993 about 9.96 million customers were being supplied through a network of 2132 distributors covering 1087 towns.

5.2 For putting up new retail outlets, periodic surveys are carried out by the Oil Industry wherever justified from the marketing angle. The Oil Industry draws out retail marketing plans based on the system evolved in accordance with the Government policy. Retail outlets/SKO-LDO dealership are awarded on the following percentage reservations under various categories:

Open category	55%
SC/ST category	25%
Freedom Fighter Category	5%
Physically Handicapped Category	7.5%
Defence Category	7.5%

5.3 About the selection of dealers, the Chairman, 10C stated in evidence:

> "In selecting dealers for petrol pumps and LPG dealers we have no role to play because Oil Selection Board is handled by the Government for each State."

5.4 In this connection a representative of Ministry of Petroleum & Natural Gas stated in evidence as follows:

> "Yes, Oil companies like HPCL, BPCL, etc. used to have their own panel before nationalisation. The Constitution of panel has been changed since then. Upto 1990 there were only six regional Oil Selection Boards in which a High Court judge and two prominent persons were there. Now there are 18 such Boards. A retired High Court judge is the Chairman and two other public persons are there as members. They do the selection."

5.5 Asked whether the oil companies had any role in this regard, the Secretary, Ministry of Petroleum & Natural Gas said in evidence:

"The oil companies do not appoint dealers and distributors. Before 1977 they were doing it."

5.6 It was pointed out that there were complaints that some Oil Selection Boards were recommending their own relatives names for agencies. The Secretary, Ministry of Petroleum and Natural Gas responded to this as follows:

"Earlier, it was done on a zonal basis; not State-wise. Then it had been suspended for a while. Due to large number of applications, they take a long time. The Chairman is a retired High Court Judge. The other two members are from the public; at least one of them belongs to the weaker-section. Where there were complaints, they had been looked into and there the Boards had been suspended and new Boards had been constituted. Even now if there are complaints, they will be looked into."

5.7 Commenting on the delay in processing the requests for dealerships, the Secretary, Ministry of Petroleum & Natural Gas stated:

"Sir as was submitted earlier, from 6 Boards earlier, now we have 18 Boards and we are having one Board for almost each State. We did not want to have pressures on the oil companies or the Ministry for allotments. We wanted an independent and open Board to decide selections. There is another aspect to it. We are following some reservations like physically handicapped persons, war widows etc. These reservations have to be strictly followed.This can be done only on a pooled basis. We are telling them to decide matters fast. They should be able to scrutinise and select eligible applications in a much faster way now. If there are 1,000 applications there are some 250 of them who are eligible for interview. We have to call them for interview and decide matters. Otherwise there will be cases where people will go to court and get the entire proceedings stayed. So, we have asked them to speed up the process."

(b) *Discretionary Quota*

5.8 On discretionary quota in the allotment of dealership in Petrol/ Diesel and LPG, the Ministry of Petroleum & Natural Gas stated in written reply:

"The existing policy guidelines provide for selection of dealers/ distributors through Oil Selection Boards. In addition, the guidelines also provide for discretionary powers to the Government for allotment of limited number of dealerships/distributorships on compassionate grounds in deserving cases. This discretionary power is exercised at the highest level in the Ministry of Petroleum & Natural Gas *i.e.* by Minister (in-charge) himself.

Oil companies are required and bound to award dealerships/ distributorships in all cases where allotment has been made under

discretionary powers of the Government."

5.9 Asked to state whether any role was played by IOC in the allocation of dealerships under the discretionary quota, the Company stated in a note as follows:

> "There is no discretion available for the Oil Companies for allocation of Retail Outlets. However, certain nominations are made by the Honourable Minister for Petroleum & Natural Gas under the discretionary powers for which Ministry would be advising the concerned Oil Companies for appropriate action. Such requests are complied with by the Oil Companies by issuing a Letter of Intent to the nominated candidates."

5.10 The Committee were informed by the Ministry that generally the following norms are kept while sanctioning dealerships/distributorships under the discretionary quota:—

(i) He or she should be a citizen of India.

(ii) He/she or his/her close relatives, *viz.* spouse, father, mother or dependents should not be a dealer of any oil company.

(iii) victims of communal riots/terrorist violence or natural calamities like earthquakes/floods etc.

(iv) Eligible immediate next of kin, namely, widows, parents, children/ para-military/police personnel including IPKF and defence personnel working under UN Forces, who have lost their lives in abnormal circumstances.

(v) Ex-defence/para-military/police personnel including those disabled in action on duty.

(vi) Social workers of high repute who have devoted their lives for outstanding social activities.

(vii) Freedom fighters or their dependents.

(viii) Physically handicapped persons.

(ix) Sportsmen/women of standing.

(x) Persons, belonging to weaker sections, including SCs/STs and backward classes or minority community, or women in distress.

(xi) Any other case of extraordinary hardship of unemployed persons.

5.11 During the 3 years from 1992-93 to 1994-95 94 Petrol/Diesel retail outlets, 139 LPG dealership and 44 SKO/LDO dealership were sanctioned out of the discretionary quota.

5.12 Enquired whether any particular percentage has been fixed with regard to the discretionary quota, a representative of the Ministry, replied during evidence:

"90 per cent of the dealership is given on the recommendations of OSB. Only about 10 percent allotment is made under the discretionary quota of the Government... Such a limit has been proposed in a suit pending before the Supreme Court. We have said that about 10% of the total number of vacancies in a particular year can be given under the discretionary quota. That case is still pending before the Supreme Court."

(c) *LPG*

5.13 As on 1.4.1993, there were 52.80 lakhs prospective Indane customers in the wait-list for getting Indane connection. IOC stated that it has been planned to clear the wait-list as at the end of 1990-91 by the end of 1994-95.

5.14 The Committee wanted to know as to what were the main constraints leading to delay in clearing the wait list of prospective customers. IOC replied in a note as follows:

"The main constraints leading to delay in clearing the wait list of perspective customers are as under:—

(a) Inadequate indigenous availability of LPG.

(b) Port constraints in importing LPG to the required extent.

(c) Increase in per capita consumption of LPG from the level of 135kg anticipated to the current actual level of 140/145kg.

Action is being taken to construct facilities for import of LPG at Kandla to the extent of 600TMT per year by IOC. HPC is providing similar facility at Managlore. Besides, IOC is also planning LPG import facilities at Haldia.

(d) In addition, the Government has introduced parallel marketing for LPG under which private parties can import and market LPG at market determined prices.

The waiting list as on end March 1991 was 36.6 lakhs for IOC and 72 lakhs for the Industry. In line with Ministry's directive, waiting list as on end March 1991 has to be cleared by 1994-95. To enable this Industry had planned to enrol 77 lakhs of new customers in the period 1990-91 to 1994-95. As against this, Industry could actually enrol 38.91 lakh customers upto 93-94 and is planning to ernol 20 lakh customers in 1994-95, taking the total upto 94-95 to 58.91 lakh customers as against 77 lakhs planned.

The aforesaid waiting list as on 1.4.91 is in respect of markets where oil companies have already introduced LPG facilities. As more and more towns have been brought under the LPG marketing network, the aforesaid waiting increased. As on 31.3.1994, the waiting list of the industry has risen to 114.17 lakhs. Alongwith import facilities being set up by the Oil Industry and parallel marketing scheme

introduced by the Government, it is expected that the aforesaid waiting list may be wiped off by 1999-2000 A.D.

5.15 On the steps being taken to expedite clearing of the wait-list for new Indane connection, IOC stated in a note as follows:—

"To increase availability of LPG, the Industry has already planned to set up import facilities at Kandla (600TMTp.a.) by IOC and at Mangalore (600TMTp.a.) by HPC in the VIII plan period. Besides, the import facilities at Haldia are also under consideration. The Government has also liberalised the marketing of LPG by private marketeers which is likely to take care of bulk and non domestic customer requirements also. This will make additional availability of LPG to PSUs for meeting domestic requirements.

While clearing the wait-list, emphasis is given to releases to new enrolments through non-viable distributors to bring them to viability levels and also, hilly markets are being given priority.

The increase availability of LPG through imports as well as parallel marketing scheme introduced by the Government will go a long way in expediting clearing of the wait-list for new LPG connections."

5.16 After private agencies have been allowed to import and market LPG on their own, many advertisements appeared in the newspapers offering LPG supply to consumers. Accordingly, many prospective customers have paid money to these agencies for registration. The Committee felt that there should some system by which the genuineness of these firms could be got verified to obviate malpractices. Responding to the suggestion, a representative of the Ministry of Petroleum & Natural Gas stated during evidence:

"The policy is that any person who wants to undertake parallel marketing for kerosene and LPG can do so without obtaining any licence for the purpose from the Government of India. The only condition put was that they have to give intimation of their intention to undertake parallel marketing to the Government. We have authorised the State Governments also to collect any information from such parallel marketeers who wish to come into the field.

When complaints were received that many people without any preparation of infrastructure for import and distribution of the product have advertised in the newspapers and collected money from the public, we advised through press notices that people in general must enter into a transaction with these companies only after verifying their antecedents... These notices have appeared in a number of newspapers. They were issued through the Press Information Bureau... In accordance with the spirit of parallel marketing and the spirit of actually allowing any party into the market without any restriction from the Government, we do not

think it is necessary that there should be any registration of such parties. But, of course, we were collecting information of all such parties. We also asked the State Governments that they too should keep watch on these parties. Whenever any advertisement appears in the newspapers we take note of it and get enquiries made.

There is provision under the MRTP Act for controlling the unfair trade practices. We have already sent a list of 106 parties to the MRTPC. They have issued notices to the parties regarding their investment plans etc.

When a specific complaint is received it is taken note of by the MRTPC. They have started investigation against 12 parties for indulging in unfair trade practices."

5.17 When the Committee expressed the view that this alone might not safeguard the interest of the common man, the witness stated:

"We also advise the State Governments that they must find out the parties which are indulging in unfair trade practices. They should take action against them under IPC. (Indian Penal Code)."

The Secretary, Ministry of Petroleum & Natural Gas added:

"If special law is required, we will do that. We will ask the Government to ban this sort of advertisements. MRTP is looking into this."

VI. GENERAL

(a) *Working Results*

6.1 Budgeted and actual figures in respect of turnover and profit before tax for the last 5 years were as follows:

(Rs. in crores)

Year	Turnover		Profit before Tax	Net Profit
	Budget Estimates (Revised)	Actual	Budget Estimates (Revised)	Actual
1989-90	16738	17500	623	840	675
1990-91	19413	19554	632	907	730
1991-92	21195	20745	1045	1085	787
1992-93	23758	24320	619	935	677
1993-94	25049	23732	664	964	772

6.2 IOC stated that reduction in profit during the year 1992-93 was mainly due to reduction in the dividend income from units of UTI.

6.3 Enquired whether the phenomenon of actual profits being much more than targets year after year does not indicate that the targets set were not realistic enough, IOC stated in a written reply as follows:

> "As per the Accounting Policy followed by the Corporation, the targeted profit are set/based on the prevailing margins as fixed by OCC/Government under the administered pricing system. However, the actual profit could be more than the targets mainly on account of the following reasons:—
>
> Updation of margins in a cycle of 3 years by OCC/Government approved subsequent to the preparation of budget.
>
> Incentive claims for improvement in the product patter/reduction in fuel consumption and losses at refineries approved by OCC subsequent to the approval of the budgets.
>
> Certain claims/levies imposed by the Government such as irrecoverable sales tax etc. are accounted as expense based on the imposition but the credit of the same is taken only after the acceptance of such claims by OCC/Government.
>
> Other unforeseen factors affecting the profitability taking place subsequent to the approval of budgets such as change in depreciation rates, interest variations, etc."

(b) *Outstandings*

6.4 Out of IOC's total turnover, 75% is of cash and carry type and 25% is of credit sales. Credit sales consist of around 80% to Government/PSUs and around 20% to private sector.

6.5 Age-wise position of sundry debtors of the Corporation during the last three years was as follows:—

(Rs. in Crores)

Year	Less than 6 Months	More than 6 Months	Total
As on 31.3.91	138.90	381.70	520.60
As on 31.3.92	162.98	752.24	915.22
As on 31.3.93	214.20	858.41	1072.61

6.6 IOC in a note gave sector-wise explanation for increase in the outstandings:—

Power Houses: The outstandings of GEB and ASEB have been chronic. However, GEB outstandings have been recently brought down from 184.2 crores as on 31.3.1993 to 124.0 crores.

Fertilizer Units: The Fertilizer Units outstandings are as a result of authorised credit with provision for interest recovery.

Airlines: The outstandings is mainly from Indian Airlines A/c Vayudoot and Air India. The Government had frozen the outstandings of Indian Airlines because of the poor financial position.

STU's: The increase is as a result of the poor financial position of the STUs which could not increase the tariff rates commensurate with the current cost on account of social considerations.

Government Parties: The increase of outstandings in this sector was due to authorised credit extended to: BALCO, HOCL, Army, Navy, NALCO.

Private Parties: The increase in outstanding in this sector was due to authorised credit extended to Lube Distributors to counter stiff competition from minor oil companies and other marketing companies. Credit was also extended to private parties due to pressing marketing considerations to extend credit to PCBL, Raj Lubricants etc.

6.7 In response to a query by the Committee, they were informed that the following was the set up available in IOC for recovery of outstandings:

(a) Sales Officers/Field Officers look after the recovery of outstandings from consumers, Lube customers/Lube dealers, Retail Outlets distributors etc.

(b) In each Region credit and collection section headed by Chief

Managers/Sr. Managers exists. This section is responsible for collection of outstandings.

(c) Outstandings are regularly reviewed by the Management and discussed in detail in Corporate Management Committee meetings. Apart from this during the Regional review meetings outstandings of major customers are reviewed.

(d) Financial Review Folder is prepared every quarter to review the outstandings of various customers.

6.8 On the measures taken by the Company to recover the heavy outstandings, IOC stated in a note that the following ongoing measures are being taken continuously to recover the heavy and long standing debts which has resulted in the reduction of outstandings inspite of liberalised credit facilities extended to customers to combat stiff competition from OOHCs and to increase our market share.

(a) In each Divisional Office, Special Task Force has been constituted for continuous monitoring and liquidation of outstandings.

(b) In Regional Offices a separate Credit and Collection Section has been created which is headed by a Sr. Credit and Collection Manager and assisted by Regional Aviation, P&S, Marine, Accounts Departments customers ledger section for monitoring and recovery of outstandings.

(c) In respect of disputed items of over Rs. 230 crores pertaining to GEB (Rs. 125 crores), ASEB (Rs. 64.6 crores), Air India (Rs. 12.8 crores), Vayudoot (Rs. 8.4 crores), Tide Water (Rs. 1.0 crores), Indrol (Rs. 2.3 crores), PCC (1 crore) etc. the matter has been escalated to the Ministries of P & N G, Civil Aviation, Surface Transport etc. for seeking their assistance in liquidation of outstandings.

(d) Regular reviews of outstandings of Divisional Offices are carried out by the Regional Sales and Finance Team. In addition, HO Sales and Finance Team also carry out outstandings reviews of the Regions every quarter share Items over Rs. 1 lakh including doubtful debts/Legal cases are taken up for review and liquidation.

(e) The liquidation of outstandings is given the highest importance and every month, the outstandings are reviewed in the Corporate Management Committee and action initiated for liquidation of outstandings.

(f) A recovery plan of outstandings has also been sent to all the Regions and Functional Departments in HO for liquidation of outstandings.

(g) In respect of the outstandings of items over 10 lakhs, the same

have already been brought down from 503.9 crores as on 31.3.1993 to 492.2 crores as on 31.3.1994 inclusive of 230.0 crores of disputed items. Due to the comparatively better financial position of the Fertilizer Units, the outstandings have been reduced from 110.0 crores as on 31.3.1993 to 30.80 crores as on 31.3.1994.

(h) In order to recover large outstandings especially from Government customers such as STUs, it has been agreed in the Apex Level meeting of the Chairman/Directors of the Oil Companies that when the supplying company takes action to recover the dues, if necessary by cutting off supplies, the other oil companies would not fill in the gap created by the supplying company. This arrangement has been effectively tried out when the oil companies together stopped supplies to Delhi Transport Corporation whose outstandings have risen to more than Rs. 20 crores. During the current year, we propose to initiate vigorous follow up action to collect the outstandings by enlisting cooperation of industry memebers to observe/abide by Industry discipline."

6.9 On the steps taken by the Government for liquidation of outstandings, the Ministry of Petroleum & Natural Gas stated in a written reply:

"The Ministry of Petroleum & Natural Gas had escalated the matter with the Ministry of Civil Aviation and with the Governments of Assam and Gujarat for ASEB and GEB outstandings.

(c) *Regular Chief Executive*

6.10 IOC was headed by an acting Chairman after the former Cheif Executive was placed under suspension on 3 June, 1993.

6.11 Enquired as to why a regular Chairman was not appointed, the Secretary, Ministry of Petroleum & Natural Gas stated as follows:

"That is not possible. Because, according to the rules, suppose a person in a substantive position is under suspension, till a final decision is taken, no one else could be appointed substantively. Now, the enquiry is going on; the enquiry is in progress. As soon as the enquiry report is received the disciplinary authorities will take a decision."

6.12 About the present stage of enquiry, Ministry of Petroleum & Natural Gas stated in a note that the charge-sheet was issued on 25.8.1993. After considering his reply a conclusion had to be arrived at for a regular enquiry under the relevant rules applicable to him. After arriving at the conclusion to do so, CVC was requested to appoint an Inquiry Officer for this purpose. Inquiry Officer in this case was appointed on January 27, 1994. The hearing of the case could not be held as the charged officer

sought adjournments of the hearings as and when it was fixed by producing Medical Certificate of his illness and on other counts. Before further hearing of the case could be held he charged the Inquiry Officer of bias and unfairness, and sought the appointment of an alternative Inquiry Officer. The matter was under examination for further action.

6.13 Enquired whether the company would function without a regular Chairman so long as the enquiry goes on, the Secretary, Ministry of Petroleum & Natural Gas observed during evidence:

> "Sir, we have made arrangements, additional charge has been given."

6.14 On a suggestion by the Committee that someone could be appointed on temporary basis, the witness replied:

> "These appointments are on contract basis. Anyway, Sir, we will examine your suggestion."

(d) *Board of Directors*

6.15 The DPE Guidelines issued in 1992 provide that the member of Government Directors on the Board of Directors of a Public Undertakings should in no case exceed two. Against this there are four Government Directors on the Board of IOC.

6.16 The DPE Guidelines also provide for appointment of part-time non-official Directors on the Board of PSUs. The Committee wanted to know whether there were any non-official Directors in the Board of IOC. The Secretary, Ministry of Petroleum & Natural Gas stated in evidence:

> "There are no non-official Directors. Provision is there but there is no non-official Director."
>
> The witness added:
>
> "There are functional Directors who are full time Directors. Then there are ex-officio Directors who are appointed by the Government. But till date we have not appointed outsiders as Directors in our company."

6.17 Enquired about the reasons for not appointing non-official Directors the witness replied:

> "We found the existing arrangements very satisfactory."

PART II

CONCLUSIONS/RECOMMENDATIONS OF THE COMMITTEE

1. Indian Oil Corporation Limited (IOC) was established on 1 September, 1964. The micro-objectives of the Company were approved by Government in June, 1984. In the petroleum sector, IOC has been given a dominant role to play in the field of refining and distribution of petroleum products. Although the Company has been making profits, its growth in sales has registered a declining trend as compared to industry growth since the last three years due to various factors. Capacity utilisation is also lower when overall performance of other refineries is taken into account primarily due to shortage of crude to Barauni/Guwahati Refineries. The cost of production has been increasing steadily. Value added per employee is low. There are slippages in project planning and implementation. Nevertheless, IOC seems to be contended with achieving the objectives of the Company. After going into the working of IOC, the Committee are of the view that there is sufficient scope for improvement in several areas particularly the cost of production which has been increasing steadily, the value added per employee which is low at present and project planning and implementation to achieve overall improvement in the performance of the Company. These and other aspects have been dealt with by the Committee in detail in the subsequent paragraphs.

Recommendation (S. No. 1, Paragraph 1)

2. IOC has a Corporate Perspective Plan 2000 and a Divisional Long Range Plan for the period 1992—97 delineating specific action plans for achieving overall long term goals. The Committee note that as against the projection given in the Perspective Plan for all product sales of 59.53 million tonnes with a market share of 58.8% in the year 1999-2000 the Company's share had fallen to 54.9% in 1993-94. IOC's growth in sales has been declining from 1991-92 to 1993-94 *viz.* 3.02%, 1.88% and 0.90%, as against industry growth of 3.5%, 3.9% and 2.4% respectively. According to the Ministry although the target of 58.8% was given in the Perspective Plan on the basis of anticipation prevailing earlier, the market share determined for IOC on the basis of Sales Plan Entitlement (SPE) is 56.8% of the total petroleum products being marketed by the oil marketing companies. The Committee find that the sales performance of IOC is lower as compared to both SPE fixed for the Company and the projection given in the Perspective Plan. Even when the industry growth improved in 1992-93 as compared to 1991-92, IOC's growth declined from 3.02% to 1.88%. As against Industry growth of 2.4% in 1993-94, IOC could achieve only 0.90% growth in sales. As per IOC, it is attributed to lower growth. It is a cause of concern to the

Committee, more so because the Company enjoys Sales Plan Entitlement under the Administered Price Regime and Pool Mechanism. The Committee strongly feel that this calls for specific identification of those factors which are responsible for the poor sales performance of the Company. They recommend that IOC should take immediate steps to plug the loopholes and draw up a plan of action to make the products competitive and promote sales of all the products with a view to improving the Company's market share.

Recommendation (S. No. 2, Paragraph 2)

3. The Committee have been informed that pursuant to the recent liberalised economic policies and fiscal restructuring in the country, both the Corporate Perspective Plan and the Long Range Plan are being updated keeping in tune with the national policies. With the economic reforms, IOC was apprehensive of greater competition being faced from the private sector both in the field of refining as well as marketing of petroleum products. This contention of the Company attains significance in the light of the recommendations recently made by the Sunder Rajan Committee appointed by Government for total deregulation of Oil Industry by removing the Administered Price Mechanism. Undoubtedly removal of price controls and deregulation of the marketing sector will lead to opening up of the petroleum sector to competition from all fronts. Whereas IOC was very forthcoming in expressing its apprehension that this might lead to decline in the market share of PSUs like IOC, the Ministry seems to be unconcerned about the Company's prospects. During evidence, the Secretary of the Ministry went to the extent of saying that the Corporation has a corporate view and the Government has a Government view. The Committee would like to emphasise that it is the responsibility of the Administrative Ministry to safeguard the corporate objectives and interests of a public undertaking under its control. At the same time they feel that in the light of the changing economic policies of the Government, IOC should be prepared to face greater competition in the days to come. The Company should update its Corporate Plan and Long Range Plan expeditiously in order to equip itself with the definite strategy and plan of action to face the new challenges.

Recommendation (S. No. 3, Paragraph 3)

4. IOC was one of the first companies to have signed MOU with the Government right from the year 1989-90. The Committee note that MOU signing companies are supposed to be delegated certain powers exercisable under the MOU to enable attainment of the targets and objectives. While the performance of the Company has been rated in the range of excellence from the beginning, the Committee found that full benefits of MOU,

especially with regard to delegation of powers, have not really accrued to the Company. The Secretary of the Ministry was very candid in admitting it: "Yes, some things have been given partly and some have not been complied with." He was also supportive of the proposals for enhancing the authority of the Board from the existing Rs. 50 crores for approval of projects and delegation of more powers to PSUs for entering into Joint Ventures. The Committee have in their 36th Report (1994-95) on Gas Authority of India Limited extensively dealt with the question of giving autonomy to PSUs to the extent it is envisaged in the system of MOU. The Committee desire that Government should take serious note of the recommendations of the Committee and take urgent steps to further delegate powers to PSUs under the MOU arrangement.

Recommendation (S. No. 4, Paragraph 4)

5. The Committee note that out of the projects costing more than Rs. 10 crores completed by IOC during 1990-91 to 1992-93 there were slippages in cost and (or) time in execution of the projects as compared to original time schedule and cost escalation upto 74% in comparison to the original cost. IOC has attributed the slippages largely to time consuming procedures, foreign exchange problem, statutory changes in duties and taxes, location/ site factors, change in scope, etc. Another unusual phenomena noticed by the Committee in the implementation of projects by IOC is incurring of cost far below the approved cost in some cases.

6. The Committee note with concern the undue delay and cost escalation in the execution of projects by IOC. The Committee also observe deviation in actual cost from project estimates. Inspite of the claims made by IOC and the Ministry about the existing planning and monitoring system for implementation of projects, the Committee feel that the set up in IOC for project formulation and implementation needs to be improved. They desire that a stricter mechanism for monitoring and control of projects at the formulation and implementation stages should be evolved.

Recommendation (S. No. 5, Paragraph 5&6)

7. The Committee are distressed to note that in a number of cases the project approval by Government took unusually long time. The time schedule prescribed by the Ministry of Finance (Department of Expenditure) for clearance of project proposals have not been adhered to by the Administrative Ministry and the appraising agencies. The Committee take a serious view of such inordinate delays in decision making as it results in avoidable cost escalation change in scope of the project and market conditions and denial of timely benefit to the Company. The Committee are of the firm view that the prescribed time schedule for approval of projects should be scrupulously adhered to both by the Administrative Ministry and the appraising agencies with a view to ensure that clearance of project does

not normally take more than six months after receipt of the proposal from the undertaking.

Recommondation (S. No. 6, Paragraph 7)

Expansion of Refineries

8. The proposal for expansion of Gujarat Refinery was mooted as early as in 1989. The Company submitted Feasibility Report to Government in April, 1990. and stage I clearance was given in December, 1990. At the first instance IOC was asked to submit DFR in two parts. After DFR (Part I) was submitted for connected facilities requiring indigenous technology in February, 1992, the Company was asked to submit a combined PIB note integrating DFR (Part I) and DFR (Part II). Combined PIB note was submitted in June, 1993. In the meantime ONGC made downward revision in the crude availability from Western on-shore oil fields which necessitated provision of supplementary crude for the proposed expansion by augmenting the Salaya-Viramgam and Viramgam-Koyali sections of the existing Salaya Mathura pipeline. For this a separate DFR was submitted in July, 1993. Thereafter, a combined PIB note integrating Refinery Proposal (Part I and Part II) and the pipeline proposal was circulated in January, 1994. PIB approval had not been obtained till the time of completion of examination by the Committee for want of clearance from the Ministry of Environment and Forest.

9. The Committee are constrained to note that even after a lapse of five years, the proposal for expansion of Gujarat Refinery has not been approved by Government. There have been inordinate delays at each stage of project approval. Considerable delay has been caused on account of three revisions of the project proposal itself. The chronology of events points towards a lack of sense of urgency on the part of Government in approving the project, which indeed is regrettable. The Committee however expect that now at least the project should be approved without further delay, if it has not already been approved. They would also like corrective measures to be taken to streamline the procedure for approval of projects in order to avoid such delays in future.

Recommendation (S. No. 7, Paragraphs 8 & 9)

10. Another proposal about which the Government and the Company have been blowing hot and cold over more than a decade is the expansion of Haldia Refinery. The proposal was initiated as far back as in 1980-81 for 3 MMTPA expansion. Although considerable exercise was done at that time, the proposal was reportedly turned down by a Working Group constituted by Government in 1985. The Committee find that IOC and the Ministry have given diametrically opposite reasons for not pursuing the proposal for Haldia expansion at that time. According to the Ministry the cost of expansion of an existing refinery is much less as compared to a grassroot refinery of the same capacity. The proposal for expansion had to be dropped since it had to be treated as a grassrot refinery the facilities

available having been fully saturated. IOC stated that the proposal was dropped since the Working Group constituted by Government did not recommend its expansion. It was only subsequently that the available land and infrastructural facilities were utilised to set up some projects for improving the profitability of Haldia Unit. This reduced the possibility of a low cost expansion of Haldia Refinery by 3 MMTPA since it had to be viewed virtually as a grassroot project. The Committee are not able to reconcile the divergent views placed before them. They would like to be apprised of the correct position in this regard. They also desire that in future it should be ensured that information placed before the Committee is factually correct.

11. The Committee were informed by IOC that more recently there was another proposal for a low cost expansion of Haldia Refinery by 1 MMTPA which will also produce low sulphur fuel oil required for meeting the environmental stipulations. The Company was hopeful of getting it approved by the Board and getting it implemented in 24 months. The Committee expect that IOC and the Government are serious at least about the latest proposal for expansion of the Haldia Refinery and will pursue it steadfastly to its logical conclusion.

Recommendation (S. No. 8, Paragraphs 10&11)

12. Yet another proposal hanging fire over the last five years is the Grassroot Refinery in Eastern India. In August, 1989 IOC had submitted FR Stage I to the Ministry for setting up 6 MMTPA refinery at Daitari in Orissa. This was placed at first priority among three grassroot refineries, *viz.* Central India, Western India and Eastern India. The cost estimates were revised by IOC in August, 1991 and February, 1992 and submitted to Government. Pursuant to Government's policy decision that all future refineries set up by PSUs would be in the Joint Sector with a definite equity structure, a common Press Notification for selection of co-partner for all the three refineries was issued. Responses were received from some of the gulf-based oil companies. Although a number of discussions were held with M/s. Oman Oil Company (OOC), the Government decided that only joint venture companies in Central and Western India will be set up with OOC participation. There was also no breakthrough in the discussions held by IOC with International Petroleum Investment Company, Abu Dhabi (IPIC) on account of certain conditions put forth by them. Surprisingly, the Government gave a separate letter of intent to M/s. Ashok Leyland (All) to set up a refinery in the East Coast. They offered to associate with the refinery with 25% equity participation by IOC as against the original concept of 26% equity participation. The discussions with All remained inconclusive. On the basis of the discussions held with Kuwait Petroleum Corporation (KPC), IOC suggested to the Ministry that they would like to go ahead with KPC as a joint venture partner. However, the Government asked IOC to go ahead on their own and take a decision regarding the joint venture partner later. The Committee also note that although a Site

Selection Committee set up by IOC in 1987 and another Site Selection committee set up by the Ministry in 1992 had, after visiting a number of sites, recommended Daitari as the most suitable location, a final decision regarding the site had not been taken till the time of concluding the examination by the Committee.

13. Tardy progress made in the proposal for setting up the 6 MMTPA grassroot refinery in Eastern India is a cause of deep concern to the Committee. The Committee do not find any convincing reason why such an important project for which Feasibility Report was submitted by the Company as far back as in August, 1989 should have been kept pending for so long. The cumbersome exercise undertaken to select a joint venture partner also seems to have been watered down by the Government for reasons best known only to them. The Committee fail to understand as to what could be the considerations which held back the Government from taking a final decision to associate a joint venture partner with the Refinery more so when it was very much in keeping with Government's own policy to set up public sector refineries in the joint venture. Whereas the other two refineries, *viz.* Central India with BPCL and Western India with HPCL have selected their co-partner and have gone ahead with the projects, the fate of Refinery in Eastern India which was accorded number one priority remains undecided. Still more distressing is the fact that inspite of the recommendations made by the two Site Selection Committees, a final decision has not been taken on the location of the Refinery as yet. The Committee cannot but express their displeasure over total inaction of the Government in regard to processing of the project, identification of site and selection of a joint venture partner. They are of the firm view that immediate steps should be taken to complete all the formalities in connection with the approval of the project within a period of three months from the date of presentation of this Report and the Committee apprised of the same.

Recommendation (S. No. 9, Paragraphs 12&13)

14. IOC signed an agreement with M/s. Mobil Petroleum Co. Inc., USA on 17 January, 1994 to import, manufacture and market Mobil branded lubricants in India, Nepal and Bhutan. The Joint Venture Company has 50:50 participation by IOC and Mobil. According to IOC, consequent to economic reforms in the country and the entry of a large number of MNCs into the lube sector, it became a pragmatic compulsion for the company to go in for joint venture to face the market challenge. Other considerations for entering into joint venture were to have access to frontiers of global technology and to penetrate into the customers of MNCs and competitors. The Committee are concerned about the effect which the marketing of mobil grade of lubricants by IOC could have on the Servo grade of lubricants already being marketed by the Company. The Chairman, IOC also could not say it for sure that the Company's own lubes would maintain the present market share.

15. Surprisingly one of the reasons adduced by the Secretary of the Ministry for having entered into this joint venture was that while international R&D was rapidly changing, IOC had not been able to keep abreast of those standards. This view was quite in variance with what had been stated by IOC. The Committee are however of the view that in the changed environment of economic reforms and competition from multinational companies, IOC perhaps was left with no option other than to join hands with Mobil for manufacturing and marketing of lube. Only time would prove as to what extent the company's expectations would fructify. While it might be too premature to conclude that indigenous products would not withstand the market competition, at the same time all out efforts need to be made to upgrade the quality of indigenous lubes to the international standards and to strengthen the marketing strategy so as to effectively counter any competition. The Committee, therefore, recommed that suitable steps should be taken in this regard urgently.

(Recommendation S. No. 10, Paragraphs 14 & 15)

16. The Joint Venture with Mobil envisages a lube blending plant in Asaoti, Haryana which is expected to be commissioned by 1997-98. The blending capacity of the plant will be one lakh TPA. The Committee were informed that it was decided to engage M/s. Raaj Unocal Lubricants Limited a private company, for blending of lube to meet the requirements of the Northern Region till such time the new plant is commissioned. IOBL has three plants of its own at present, *viz.* Bombay, Calcutta and Vashi. Production performance in Bombay and Calcutta blending plants have been registering a declining trend. Production in Bombay plant declined from 222.6 TMT in 1991-92 to 203.8 TMT in 1993-94 and in Calcutta plant from 120.3 TMT in 1991-92 to 105.9 TMT in 1993-94. One of the main considerations for engaging the private company was to meet the requirements of lube in the North and to capture additional business to the extent of 5 TMT per annum in the Region. However, the sales performance of lubes by IOC in the Northern Region during the period from 1991-92 to April-September, 1994 negates this theory. The sales were 101 TMT, 83 TMT, 78 TMT and 34 TMT during these four years. It is also evident that engaging of M/s. Raaj Unocal Lubricants Limited from 22 February, 1994 has not in any way helped improving the sales performance of the Company in the Region. Above all, the stock of inventory in Northern Region has been on the increase from 22559 KLs in 1191-92 to 34179 KLs in 1992-93 and to 39202 KLs in 1993-94.

17. The blending and packaging fee fixed for the private company was Rs. 1120 per KL. The Committee were informed that the fee payable to IOBL is 875 per KL. However, from the reply given to an Unstarred Question in Rajya Sabha on 7 December, 1994 it is noted that only Rs. 440 per KL was being paid to IOBL at that time which was being considered for upward revision with retrospective effect from 1 April, 1994. It is apparent

that when IOC negotiated with the private company and settled for a blending fee of Rs. 1120 per KL, the Company was paying only Rs. 440 per KL to its own subsidiary Company. IOC has tried to project that the additional expenditure on account of high blending fees could be made up to some extent by savings in transportation of base oil which works out about 10% cheaper as compared to finished product in packed form. The Asaoti plant is expected to be commissioned by 1997-98. Although engaging of M/s. Raaj Unocal Lubricants Ltd. was stated to be a stop-gap arrangement, the Committee find that the agreement signed with the Company on 22 February, 1994 is for a period of five years which means the Company would continue blending lube for IOC till February, 1999. When the Committee sought the views of the Government on engaging of the private company, the Secretary of the Ministry stated that IOC was responsible for it since it was a Board decision.

18. After going into the details, the Committee are not convinced with the reasons and justifications given by the Company for entering into the agreement with M/s. Raaj Unocal Lubricants Limited that too at such an exorbitant blending fee. They feel that with the sales performance of lubes showing a declining trend, the existing plants of IOBL could have very well catered to the demands of the Northern Region. The increase in the inventory level is a further evidence of decreasing demand. The Committee feel that the decision to engage the Company by IOC was ill-timed and mis-calculated. The Committee are unable to comprehend as to what were the considerations which prompted IOC to agree to a blending fee as high as Rs. 1120 per KL as against Rs. 440 per KL which was being paid to IOBL at that time. The argument put forward by the Company that the rates payable to the private company have been fixed based on commercial considerations hardly convince the Committee. The savings by way of transportation of base oil to Delhi in place of finished product is also too negligible to compensate the higher blending cost. The Committee are, therefore, of the firm view that the blending fee fixed was unrealistic and unjustified. What is more surprising is the very fact that though all through an impression had been given to the Committee that engaging of M/s. Raaj Unocal was an interim measure till such time the Asaoti Plant is commissioned, the facts speak otherwise since the private company has been engaged by IOC for a term of 5 years, i.e. upto February, 1999 though Asaoti Plant is expected to be commissioned by 1997-98. In view of this, the justifications given by IOC for engaging the company for blending appear inadequate. The Committee were also surprised to find the Secretary of the Ministry not taking any responsibility in the matter. Since IOC is accountable to the Administrative Ministry, who have their nominees also on the company's Board, they wonder how the Ministry could plead complete absolution. The Committee are of the view that the matter needs to be investigated thoroughly. They, therefore, recommend that an

independent enquiry be conducted into the deal and those guilty be brought to book within a period of six months from the date of presentation of this Report.

Recommendation (S. No. 11, Paragraphs 16 to 18)

19. The Committee note with concern that the actual production being achieved by IOC was lower than the installed capacity. As against the installed capacity of 24.400 MT, the actual production achieved by IOC from 1989-90 to 1992-93 was 23.530 MT, 23.742 MT, 24.29 MT and 24.31 MT. As compared to BPCL and CRL also, capacity utilisation was low in IOC. The highest percentage of capacity utilisation achieved by IOC during the years from 1989-90 to 1993-94 was 101.4 whereas it was 120.5 in BPCL and 113.8 in CRL. Though the company achieved the Oil Economy Budget/ MOU targets, production was far below the installed capacity in Barauni Refinery during the years 1988-89, to 1992-93 and in Guwahati Refinery in 1988-89, 1990-91 and 1992-93. Lower Assam crude supply was stated to be the reason for low production.

20. As a result of efforts made by the Company, Guwahati Refinery's crude production has increased. The Refinery achieved 101.2% throughout in 1993-94 and got crude allocation raised to the level of 0.95 MMT for the year 1994-95. As a short term solution to the problem of lower crude availability to Barauni Refinery from Assam oil fields, facilities were being installed for crude transportation from Haldia to Barauni by tank wagons. As a long term measure, a proposal has been submitted for a new crude oil pipeline from Haldia to Barauni. Since the capacity of the pipeline was 4.2 MMTPA even in the eventuality of non-availability of Assam crude the pipeline was expected to be adequate to meet requirements of Barauni Refinery. The proposal was awaiting PIB approval.

21. The Committee have been informed that another factor which was responsible for low productivity was that three Refineries, *viz.* Guwahati, Barauni and Baroda were designed on the old Russian design. Digboi Refinery was almost one hundred years old. The Company was in the process of expanding Digboi Refinery at a cost of about Rs. 350 crores. After that IOC was hopeful of modernising other refineries also.

22. The Committee desire that IOC should spare no efforts to constantly monitor and improve the capacity utilisation of the Refineries. They strongly feel that since IOC had been facing the problem of shortage of crude for the last several years, steps ought to have been taken for alternative arrangement of crude earlier. They expect that by now additional facilities for loading and receiving crude at Haldia and Barauni must have been installed and transportation of crude by wagons commenced. The Committee are also of the firm view that steps should be taken to implement the Haldia-Barauni pipeline project at the earliest so that production performance of Barauni Refinery improves further. They

also recommend that the Company should draw up a time-bound programme for modernisation of its Refineries which are based on old technology.

(Recommendation S. No. 12, Paragraphs 19 & 22)

23. The cost of production has been considerably higher than the budgeted costs during some years in almost all the refineries of IOC from 1988-89 to 1992-93. Compounded increase in the consumption of chemicals and increase in operating expenses, repairs and maintenance and establishment expenses were stated to be mainly responsible for a steady rise in the overall cost of production in the refineries. However, the Ministry was of the view that when the refineries grow old, the cost of refining becomes less. The Committee feel that there is scope for cost reduction by regulating overhead expenditure, consumption of chemicals and operating expenses. They are of the firm view that the Company should constantly review the performance of these plants and conduct periodic cost analysis with a view to reducing the cost of production.

Recommendation (S. No. 13, Paragraph 23)

24. Productivity per employee in IOC was lower in comparison with other companies in the public sector like BPCL and HPCL. For instance value added per employee in 1992-93 was Rs. 5.02 lakhs in IOC as against Rs. 7.96 lakhs in BPCL and Rs. 11.91 lakhs in HPCL. According to IOC factors like manpower intensive Russian/Romanian technology, low installed capacity and low crude supplies to the eastern sector refineries were responsible for power value addition IOC was hopeful of emproving Labour productivity with the modernisation of Digboi Refinery, implementation of Haldia-Barauni Pipeline Project and computerization of the departments. The Committee desire that with a view to rationalise surplus manpower, an independent agency should be engaged to assess manpower requirement in refinery Divisions of IOC. They are of the firm view that conscientious efforts should be made by the Company to improve the productivity of labour.

(Recommendation S. No. 14, Paragraph 24)

25. IOC's R&D Centre, the only such centre among the public sector refineries, was set up in Faridabad in 1972. Without undermining the achievements made by the R&D Centre of the Company, the Committee would like to point out that more attention is needed towards R&D in the refining sector. In the emerging competitive situation, an effective R&D set up is required to support indigenous products to keep an edge in quality. Inspite of the high claims made by the Company of having a world class R&D set up, the representatives of the Company and the Ministry conceded before the Committee during the evidence that the Company needs greater R&D efforts to withstand the competition from multinationals and to improve the product quality to international standards. It is noted that R&D allocation by IOC has been as low as 0.065% to 0.106% of the turnover during the last five years. This

obviously is too insignificant as compared to allocation for R&D made by other sectors.

26. The Secretary of the Ministry admitted before the Committee that the Company should do better in R&D. The Committee desire that as suggested by the Secretary, a technical body like a Research Council should be set up as part of the R&D in the refinery sector which could plan, identify and give direction to different areas of R&D. The possibility of having interaction with other research institutions like Indian Institute of Petroleum should also be explored. The Committee are of the firm view that at least new steps should be taken to put the R&D set up in the refining sector on a sound footing possibly with the active involvement of all the refining companies in the public sector. The R&D outlay should also be stepped up consistent with the need for the indigenous technology to keep pace with the international standards.

(Recommendation S. No. 15, Paragraphs 25 & 26)

27. There were 5899 Retail outlets, 3183 SKO/LDO dealers and 33 Taluka Kerosene Depots operating in the country as on 31 March, 1993 as part of the vast dealership network of IOC. Indane was being supplied through a network of 2132 distributors covering 1087 towns. The Committee were informed that for setting up new retail outlets, periodic surveys are carried out by the Oil Industry and retail marketing plans are drawn up in accordance with Government policy. The selection of dealers for LPG and petrol pumps is done by Oil Selection Boards set up by Government and the oil companies have no direct role to play in the selection. Presently there are 18 such Board with each Board comprising of a retired High Court Judge as Chairman and two public persons as members. The Committee note that there were instances of undue delay in processing of applications and irregularities in allocation of dealerships. They desire that the procedure for scrutinising applications and the criteria for allocation of dealerships should be suitably streamlined so as to ensure that the applications for dealerships are scrutinised within a specified timeframe and the decisions taken by the Oil Selection Boards are purely on merits.

(Recommendation S.No. 16, Paragraph 27)

28. The Committee also find that besides allocation of dealership/ distributorship through Oil Selection Boards, there are discretionary powers vested with the Minister for awarding dealerships/distributorships. They were informed that about 10% of the total allotment can be made under the discretionary quota and certain norms are generally followed while sanctioning dealerships from the discretionary quota. However, the Committee feel that these norms are not unambiguous. They recommend that a specific percentage of dealerships/distributorships to be awarded

under discretionary quota should be fixed in accordance with the judgement of Supreme Court when received and it should be strictly adhered to.

(Recommendation S. No. 17, Paragraph 28)

29. There were 52.80 lakhs prospective customers in the wait-list for Indane as on 1 April, 1993. The industry wait-list which was 72 lakhs at the end of March, 1991 had risen to 114.17 lakhs by the end of March, 1994. In line with the directive of Government, IOC has plans to clear the wait-list as at the end of March, 1991 by 1994-95. Some of the constraints leading to delay in clearing the wait-list were inadequate availability of indigenous LPG, port constraints in importing it and increase in per capita consumption. However, even with the additional import facilities being set up at Kandla by IOC and Mangalore by HPCL and the proposed facility at Haldia coupled with the parallel marketing scheme introduced for private marketers, it was expected to clear the wait-list only by 1999-2000 A.D. The Committee recommend that aggressive efforts should be made to reduce the waiting period and make available LPG facility to the prospective customers at the earliest.

(Recommendation S. No. 18, Paragraph 29)

30. The Committee are also deeply concerned about the mushrooming of private parallel marketers for LPG with the introduction of the new scheme by Government. In response to advertisements through newspapers etc. offering LPG supply to customers, many people have registered with such agencies after paying substantial money without verifying their genuineness. According to the Government, with a view to encourage both parallel marketing and entry of private parties into the market without any restrictions from the Government, it was kept open for any person to undertake parallel marketing for kerosene and LPG by giving only intimation to this effect to the Government. However, there were reports that some private agencies have entered into the field without having the required infrastructure for import and distribution of LPG. Complaints have also been received and investigations are also being conducted against 12 agencies. The Ministry stated that the State Governments have been asked to keep a watch over the private agencies and on the basis of a list of 106 parties given by the Ministry, MRTPC has issued notices to them for making enquiries. In addition to this, press notes have also been issued by MRTPC cautioning the public about this. In view of the complaints being received, the Committee feel that while it is a welcome step to keep the agencies entering into parallel marketing free from red tapism, Government's responsibility to safeguard the interests of potential LPG customers and check malpractices by such agencies cannot be undermined. The Committee desire that a proper mechanism should be evolved by which the antecedents of the private agencies entering the field of parallel marketing could be got verified and the quality of service rendered by them

to the customers could be reviewed from time to time. If necessary, a special regislation should be enacted to regulate the system.

(Recommendation S. No. 19, Paragraph 30)

31. The Company has been making profit year after year. However, the Committee find that profit had not increased in proportion to increase in turnover in 1992-93 and 1993-94. Another trend noticed by the Committee is the phenomenon of actual profit being much higher than budget figures throughout the last five years. This could be an indication that setting of Budget figures is not realistic enough. The Committee desire that efforts should be made to draw up budget estimates more realistically.

(Recommendation S. No. 20, Paragraph 31)

32. The Committee are concerned to note the steep increase in the outstandings of IOC. Total outstandings due to the Company increased from Rs. 520.60 crores in 1991 to Rs. 915.22 crores in 1992 and to 1072.61 crores in 1993. According to IOC, the major defaulters are Public Sector units of the Central Government as well as State Governments. The Committee stress that effective steps should be taken both at the Company as well as Ministry level to recover the outstandings. The Committee also desire that in future the Company should be cautious not to allow such huge amounts to be blocked as debts.

(Recommendation S. No. 21, Paragraph 32)

33. The Committee regret to note that such a prominent PSU like IOC had been functioning without a regular Chief Executive since 3 June, 1993 after the former Chairman was placed under suspension. There has been considerable delay in initiating enquiry against the former incumbent. It was only after the Committee pointed out to Government that a regular Chairman could be appointed on temporary basis even when the enquiry is pending, the matter was considered by the Government and a regular Chairman has been appointed recently. The Committee are unhappy about the tardy progress made in initiating the disciplinary proceedings against the former Chairman of IOC. The Committee desire that the enquiry proceedings should be expedited.

(Recommendation S. No. 22, Paragraph 33)

34. The Committee are astonished to find that there are four Government Directors on the Board of IOC whereas the DPE guidelines strictly provide that the number of Government Directors on the Board of a Public Undertaking should in no case exceed two.

35. The DPE guidelines also provide for appointment of part-time non-official Directors on the Board of Public Undertakings. This helps to provide guidance of experts and professionals to PSUs at Board level. However, the Government seems to be content with the present arrangement of having only functional Directors and Government Directors. The Committee are of the view that Government should consider the

desirability of inducting non-official Directors on the Board of the Company. They would, therefore, recommend that Government should review the structure of the Board and take steps to rationalise it in accordance with the DPE guidelines.

(Recommendation S. No. 23, Paragraphs 34&35)

NEW DELHI;
27 April, 1995
7 Vaisakha, 1917 (S)

VILAS MUTTEMWAR,
Chairman,
Committee on Public Undertakings.

CORRIGENDA TO THE FORTY SECOND REPORT OF THE COMMITTEE ON PUBLIC UNDERTAKINGS (1994-95, ON INDIAN OIL CORPORATION LIMITED, MINISTRY OF PETROLEUM AND NATURAL GAS.

PAGE	PARA	LINE	FOR	READ
9	2.3	11	an	and
19	2.28	3	evidences	evidence as
22	3.7	2	other	others
33	4.22	3	delete "are"	
34	4.24	18-19	delete "and since then almost entire range of lubricant"	
44	6.3	11	patter/reduction	pattern/reduction
48	6.15	1	member	number
53	12	17	(All)	(ALL)
53	12	20	All	ALL
59	27	10	Board with	Boards with